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FOREIGN SERVICE DESPATCH

FROM : AMCONSULATE GENERAL, CASABLANCA

150
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON

January 5, 1955
DATE

REF : CERP, June 30, 1954, and Casablanca despatches 113 of November 19, 1954, 115 of November 24, 1954, and 126 of December 9, 1954.

For Dept. Use Only	ACTION	DEPT.
	NEA-4	INFO OCR-2 EUR-5 Ofi-6 E-4 L-2 FRB-2 FOA-10 Rep-2
	REC'D 1/14	INFO OTHER Cin-5 Army-4 Navy-3 Air-3 Com-10 TAPCO FR-3

SUBJECT: D-14: The Continuing Campaign for Revision of the Treaties Determining the Economic Position of Morocco

The chorus of voices demanding a revision of the treaties determining the economic position of Morocco, tariff structure revisions, and control over "sans devises" importations has grown in size and intensity. To the present time, at least ten industrial and business leaders and journalists have taken part in the campaign. Furthermore, following his reference to the problems of treaty revision and "sans devises" import control before the French Section of the Council of Government in December (see Casablanca despatch 126 of December 9, 1954), the Resident General again referred to these issues in speaking to a December meeting of the Casablanca Chamber of Commerce. The most revealing passage in the Resident General's remarks was the following:

"Let me remind you that certain decisions have recently been taken for the purpose of bringing to the more seriously threatened industrial sectors the assistance necessary to enable them to turn a tight corner, and that other decisions will be submitted for the approval of the French Government, at the same time as basic solutions are envisaged to procure for this country's economy the legal means necessary to protect its legitimate interests. As a matter of fact, this protection is not sufficiently assured by a Statute which, at least in certain of its provisions, no longer corresponds to the degree of economic development which Morocco has attained. Moreover, this situation is clearly just as detrimental to Moroccan industrialists and businessmen in Casablanca and in the whole country, as to French industrialists and businessmen. And we owe it to them as much as to ourselves to do everything that lies in our power to redress this situation.

"On the other hand, I know that the immoderate use of "sans devises" importations is one of the causes of the anxiety felt by many of you. We must face this great problem."

It is probable that the Resident General's reference to decisions already taken concerns certain official measures of aid to local industries which have been demanded by business leaders and agreed to in principle by Protectorate authorities. These measures include the exemption from import duties of additional raw materials for industry, similar tax exemptions for manufactured products destined for exportation, liberalized credit and loan facilities, and reduced water and power costs. On the other hand, the reference to basic

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solutions envisaged may indicate that Protectorate officials have joined local business leaders in support of treaty revisions in favor of a differential tariff schedule, and that such proposals have been submitted for the consideration of the French Government buttressed with the full weight of Residency approval.

It is also noteworthy that the Resident General has accepted the contention that the Act of Algeciras contains provisions which are decidedly harmful to the French Moroccan economy, at the same time as he embraced the principle that economic policy in French Morocco should operate to the benefit jointly of the French Moroccan business and industrial community and manufacturing and exporting interests in France.

With regard to the question of controlling or limiting "sans devises" imports of commodities competing with products of local industries, the Resident General had little to contribute, which would seem to corroborate published indications from other quarters that the imposition of measures altering the system of "sans devises" imports may also have had to be submitted to the French Government for approval. In this event, it might be Paris and not the Residency which has, until now at least, hesitated to restrict these importations.

The remarks of the Resident General are considerably milder than the opinions currently expressed on these questions by members of the local business community, one of whom characterized the advantages accruing to foreign residents of Morocco in matters of importation as "immoral". A recent example of thinking in this regard is provided in the speech by Mr. Souchon, president of the French Moroccan Federation of Metallurgical Industries, before a gathering of members of that association. Passages from this speech appear in translation as an enclosure to this despatch. Mr. Souchon admits that his proposals are downright protectionist at a moment when the world is progressively forsaking protectionism as national policy. He justifies his stand on the basis of the immaturity of the Moroccan economy and the need for the defense of local industries against competition from lower-price products from abroad. He blames the Act of Algeciras and the decision of the International Court of Justice for the existence of the system of "sans devises" importations and the inability of the country to impose a differential import duty schedule, and calls for immediate action by the French Government to alter the objectionable clauses of the treaties in favor of protectionism and away from the traditional policy of the "open door".

George D. LaMont
American Consul General

Enclosure:
Translation of portions of a speech by the president of the French Moroccan Federation of Metallurgical Industries.

Copies to:
Paris, Tangier, Rabat

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(Passages from a speech by the president of the French Moroccan Federation of Metallurgical Industries)

In the past there has never been, there could not very well be, any economic doctrine other than that imposed by the Algeciras convention. The decision of the Hague Court of Justice of August 27, 1952 has re-affirmed this doctrine and, by amplifying "sans devises" importations, has helped to paralyze the economic development of a new country, which is charged with providing a livelihood for nearly 9 million inhabitants.

******

I shall not read to you all the solutions which we have proposed to the Secretary General of the Protectorate - they are all imbued with protectionism.

Paradoxical as it may seem, while Europe is directing its economy toward a liberation of commercial exchanges, we are forced to demand a protectionist regime for Morocco; this is an imperative for all new countries. It is necessary, not only in our own interest but in the interest of this country and its populations, that industries be kept alive and develop normally; that they must no longer be run down by a quasi world-wide competition, which exports to Morocco that marginal ton which ensures full employment for its labor force but puts out of joint the free operation of competition in this country.

******

If the Moroccan economy is to be given new impetus, we must go much farther. We know the answer will be that it is not possible to do away with customs duties on raw materials destined for industries, even though, if necessary, these could be doubled on finished products which can be manufactured at normal prices - we insist, normal prices - by Morocco, and that a 40-year old treaty will be tossed into our lap, as if treaties made by human beings were of essence divine. Yet, since Algeciras we have seen quite a few treaties unilaterally torn up. We think that negotiations rapidly conducted by the Quai d'Orsay could, in less than two months, obtain a two-year suspension of the tariff clauses of the Act of Algeciras. There would be no lack of political, economic and, above all, social reasons to uphold such a proposition.

******

But we also know that if, in obedience to the terms of obsolete treaties, drastic measures do not soon materialize, our industries will disappear one by one, our commerce will sicken and we let you imagine what social and political repercussions will ensue.

******

Translation by V. Olivier

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INCOMING TELEGRAM 58 Department of State

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Control: 357
Rec'd: March 1, 1955
11:57 a.m.

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FROM: Rabat

TO: Secretary of State

NO: 106, March 1, 11 a.m.

SENT DEPARTMENT 106, REPEATED INFORMATION PARIS 92, TANGIER 118, CASABLANCA, TUNIS, ALGIERS UNNUMBERED.

Resident General expected depart for Paris March 3 to contact Ministers of Faure Government. Residency sources not counting on results from visit though Lacoste prepared "patiently" explain situation as he has done four previous visits.

Latest spasm of bombing and machine gun attacks in Casablanca-- twelve incidents in three days-- after relatively calm period will not help Resident General this visit though he has apparently improved his personal position somewhat through better relations with Colon and war veterans groups.

French recently lifted curfew of eight month duration in Khemisset area (Rabat-omknes* road) but are believed preoccupied by current situation in locust-stricken Dra Valley (Mailakesh region) where official sources inform us large number Moroccan farmers have refused pay agricultural taxes.

PORTER

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*As received. Serviced upon request.

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Control: 3469
Rec'd: February 7, 1955
1:29 p.m.

FROM: Rabat

TO: Secretary of State

NO: 100, February 6, 11 p.m.

SENT DEPARTMENT 100; REPEATED INFORMATION TANGIER 111, PARIS 87, CASABLANCA UNNUMBERED.

Lacoste informed me this evening that French Government is sending Panafieu (former French Minister in Tangier) and Siraud (former Assistant Secretary General of protectorate recently named Minister Counselor at Ankara) to Washington to explain French attitude on imports sans devises. He said he hoped they would be well received and that we would give attention to their thesis which would be based on fact that such imports were about to put many local firms out of business. He repeated Siraud theme reported my telegram 79 December 16 that it was unbelievable that we would stand on legal position thus greatly harming local economy when we had put millions of dollars of aid into this country. I said I believed I knew him well enough to point out that argument could be reversed to question French desire to hamper relatively small American commercial effort based on treaty position, when we had given considerable economic assistance to Morocco in recent past, and I inquired whether firms whose existence threatened were French or Moroccan. He replied statistics not at hand, but American "reasonableness" on this matter would enable administration to deal with many offenders of internationalities. When I asked if Panafieu and Siraud would have proposals he replied in essence that they would bring up desirability of import quotas.

This information, he wished emphasize, was of informal nature as Paris would formally communicate French intentions re Panafieu-Siraud visit.

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Control: 4823
Rec'd: February 9, 1955
4:26 p. m.

FROM: Rabat

TO: **Secretary of State**

NO: 101, February 9, 5 p. m.

SENT DEPARTMENT 101 REPEATED INFORMATION TANGIER 113 PARIS 88 CASABLANCA UNNUMBERED.

Reference CONTEL 100.

Residency informs me Commerce Director Felici and Paris official Masson accompanying Depanafieu-Siraud Mission as technical assistants only. Depanafieu now at Madrid "indicating to Spanish authorities in what manner we (French) propose to regulate this affair." He will leave for Washington February 12 evening.

Residency denies conversations with British Foreign Office, but states British have indicated they ready participate discussions.

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Control: 6134
Rec'd: February 11, 1955
4:26 p.m.

FROM: Paris

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TO: Secretary of State

NO: 3392, February 11, 7 p.m.

PRIORITY

SENT DEPARTMENT 3392; REPEATED INFORMATION TANGIER 97, RABAT 71, CASABLANCA 44, LONDON [illegible] NUMBERED.

Certain additional information re Panafieu mission received in separate conversations this afternoon with Basdevant of Protectorages Ministry and Siraud who departs this evening for Washington (EMBTEL 3372 February 11). In addition to supplying Department with information requested during July discussions Panafieu delegation will discuss with Department long term problem of affording protection to local industries particularly adapted to Morocco, especially those producing mass consumer goods. Present French plan is to reopen negotiations with UK on treaty of commerce which was signed in 1938 but never ratified. New treaty would supplant Moroccan-UK treaty of 1956 which established maximum of 10 percent duty on imports into Morocco a limitation extending to imports from all sources through provisions Act Algeciras. In French view renegotiation of 1938 treaty would be largely confined to modifying list which has been drawn up of certain commodities which UK particularly interested in exporting and on which special tariff rates established. French have discussed renegotiation proposal unofficially with British and reaction favorable.

As it may be some months before new treaty can be concluded, shorter term problem exists in certain imports which are immediate threat to local industry, particularly textiles, and which in general are not normally supplied in any quantity from US. They are however imported from other countries by American import houses in Morocco. French propose establishing quota for these commodities on equitable basis. Siraud in particular insisted that French purpose in proposing these measures was not to reserve Moroccan market for French exports or French firms but to permit industry to develop in Morocco to help meet problem of providing for ever-growing population.

Siraud commented Panafieu trip originally had been planned for March and that until his arrival Paris week ago he had not expected to be part of delegation. We believe French may have advanced mission's departure to take advantage of Siraud's availability now before his departure for Turkey on February 22.

Correction made by RM/R

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Rec'd: February 11, 1955
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FROM: Paris

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TO: Secretary of State

NO: 3392, February 11, 7 p.m.

PRIORITY

SENT DEPARTMENT 3392; REPEATED INFORMATION TANGIER 97, RABAT 71, CASABLANCA 44, LONDON UNNUMBERED.

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FROM: Paris

TO: Secretary of State

NO: 3372, February 11, 11 a.m.

PRIORITY

SENT DEPARTMENT 3372, REPEATED INFORMATION RABAT 70, TANGIER 96, CASABLANCA 43

Re Rabat 101 to Department; repeated information Tangier 113, Paris 88, Casablanca unnumbered.

Masson of Ministry Moroccan Tunisian Affairs informs us De Panafieu mission leaving for Washington this week-end and hopes to complete discussions with Department of proposed French action re Sans Devises imports by end of next week. Composition of mission as reported in Rabat telegram. French Embassy Washington to notify Department officially. Masson hoped talks will begin where discussions last July between French Embassy and Department left off.

Although Masson unwilling to describe substance French proposals before explained in Washington, he said that would apply not only to textile problem, which most urgent at present, but also to other commodities in which local Moroccan industry insufficiently protected against Sans Devises imports. Stated French concerned more over fate of local industries than over displacement of French exports or French trading firms.

WILLIAMS

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FOREIGN SERVICE DESPATCH

FROM : LEGATION, TANGIER, MOROCCO — 370 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — February 28, 1955 DATE

REF : CERP, Tangier, June 30, 1954, Item C-2

For Dept. Use Only	ACTION	DEPT.
17	Com-10	INFO Rep-2 ob-6 NEA-4 EUR-5 E-4
	REC'D 3/14	OTHER Cin-5 FOA-10 TR-3 FRB-2 TAR-2 LAB-4 Ag-7 IN-7

SUBJECT: Tangier - Economic Review, 1954 OSD-4 Army-4 Navy-3 Air-4 XMB-3 USIA-10 CL-2 Paris-1 Madrid-1 London-1 Rome-1 Tunis-1 Tripoli-1 Casablanca-1 Rabat-1 Tangier-10

After a three-year drop from what is generally conceded to have been an abnormal peak in 1951, Tangier's economy seemed to be leveling off during 1954 to a point which might be considered normal in relation to the size and potential of the Zone. While certain economic indices continued to slip, others held even and a number actually rose above 1954. Although many businessmen continued to lament the passing of the plush years and to predict a grim future, others appeared grateful that the depression was no greater and even dared to express some optimism regarding the commercial and financial future of the Zone. Statistics for the year gave some support to the contention that business activities were approaching a norm more logically balanced in 1954 than in previous years between needs of the fixed population and the capacity of the Zone to produce or import. It was possible that relatively quiet conditions in the rest of the world outside of Morocco during the past year may have allowed Tangier's economy to seek a level somewhat freer from the artificial props or depressing forces which have so often exerted a profound influence on the life of the Zone.

Among the significant economic indices, construction continued to fall off slightly, bankruptcies and mortgages increased, and unemployment rose above 1953. The population, however, dropped a trifle toward the end of the year, the majority of departures being among Spaniards who made up a high proportion of the registered unemployed. Transportation and tourist statistics held substantially even with the previous year. Imports dropped slightly, with exports rising in an equally small degree. The United States led other countries as both prime supplier and main buyer. The cost of living index dropped by 20 points.

BACKGROUND

Inflationary forces which had caused the 1949-1951 boom, such as political unrest and fear of Communist aggression in Europe, along with actual fighting in Asia, slackened in 1954. People with money felt less compulsion to move capital out of their own countries. At the same time, Tangier, having over-extended itself, attracted less from prospective investors and speculators. Drops in world prices caught many local importers and merchants with large inventories. Relaxation of import controls in certain Mediterranean countries hurt Tangier exporters, transit traders and smugglers. The stabilization of major national currencies and approaches toward free convertibility in a number of areas reduced the importance of Tangier's money market.

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While Europe and even Asia were enjoying relative peace, the internal situation in Morocco was far from calm. This, too, had an adverse effect on Tangier's economy. Nationalists, rallying behind the issue of the deposition in 1953 of former Sultan Sidi Mohamed ben Youssef, instituted a reign of terror throughout the French Zone. Hardly a week passed without attacks against French officials and Moroccans friendly to France, including the present Sultan Sidi Mohamed ben Moulay Arafa. While there was no terrorist activity in the Tangier Zone, the situation in the French Protectorate made itself felt economically in Tangier through boycotts of tobacco, sugar and textiles, the frightening off of tourists from the shores of Morocco, the elimination of the Tangier-Fez night train (which was vulnerable to attack), and in numerous other ways. There was a reported move to Tangier on the part of worried pro-French Moroccans and the purchase by the present Sultan of a palace in Tangier was confirmed.

Domestic and foreign policies of France and Spain, the two Protecting Powers in Morocco, also exerted an economic influence on Tangier. Faced with Nationalist boycotts of certain French products, France moved to protect her industries at home and in her Zone by the tightening of various controls. This affected a considerable portion of Tangier's transit, re-export and interzonal trade, incidentally involving some degree of American products. France's feeling of insecurity also produced rumors that she intended to move for the revision of the Act of Algeciras and to bring pressure on the United States to revise its treaty position in Morocco. Spain meanwhile continued to protect her commercial interests in the Spanish Zone, and to build up the role of the metropolitan enclaves of Ceuta and Melilla, oftentimes at the expense of Tangier port facilities.

Within Tangier itself, two factors influenced the economy of the Zone: the policies of the Tangier Administration and the philosophy of the Tangier businessman. From May 1954 until the present the office of Administrator of the International Zone has been vacant, the executive power of the Zone being exercised by a capable Assistant Administrator (of French nationality). For a number of reasons, not attributable to either the former or acting Administrators, revenue decreased and expenses increased under the 1954 budget. Various laws and administrative measures designed to improve the commercial life and fiscal position of the Zone were blocked at one point or another in the complex system of the Zone's government.

Meanwhile, typical local businessmen did little to stimulate the economic rhythm. Most refused to alter prices in order to turn over inventories or to grant concession rates for large sales. Property owners preferred to retain empty or partially-filled apartments, rather than reduce rents. Many appeared to be living on profits made in previous years or to be waiting for another world crisis to improve Tangier's position. A few who refused to speed slow-moving merchandise, introduce aggressive sales tactics, make price concessions and properly analyze the present market, failed. But others continued to exist, by their very stagnant presence imposing a blanket of gloom and inactivity on Tangier business.

PUBLIC FINANCE

Tangier's budget passed at the beginning of the year 1954 indicated expected decreases in both Receipts and Expenditures below the budget provisions of 1953. However, numerous revisions were made in the estimate during the course of the year, eventually showing budget provisions for both Receipts and Expenditures figures somewhat above 1953. Based on these budget provisions alone, there appeared to be a small deficit for 1954. However, Administration officials expressed some optimism that the Zone would still close its books for 1954 with a modest surplus. Accounting through December 31 indicated that Receipts were running slightly above Expenditures despite the budget provisions, but no final determination could be made of the eventual outcome until final accounts are rendered by the Administration several months from this date. (See Appendix, Supplementary Despatch A)

Public finances, always the subject of some controversy, were the subject of considerable criticism in Tangier during 1954 from residents already concerned about the general depression. They were particularly critical of personnel expenditures, representing more than half of the Zone's total expenses. There was considerable grumbling about additional public works started during the year and implied charges of graft. Three-way arguments ensued month after month between the Committee of Control, the Legislative Assembly and the Administration over Tangier's inadequate water supply, drainage schemes which proved inadequate, a housing development for the Moorish population which had remained idle for more than a year after completion, unexpected increases in cost of the still-unoccupied new Legislative Assembly building, the operation of the Water and Electricity Company, the depletion of the Reserve Fund, and methods of purchasing currency exchanges for Administration payrolls.

Despite these criticisms, however, the Administration began to tighten its belt, at the same time proceeding with a number of worthwhile projects. Mr. Edmond Vermeil, Acting Administrator, and Mr. H . G. Crawshaw, Assistant Administrator for Finance, with guidance from the Committee of Control and at times constructive advice from the Legislative Assembly, were primarily responsible for such improvements as were accomplished. Among beneficial projects undertaken during the year was the beginning of a breakwater extension and related harbor development. Others, such as a new market which had been planned, were not started because of lack of funds.

LABOR

For the first time in many years Tangier registered a decrease in population (Appendix, Table 1). The drop was slight because the number of Moroccans actually increased, but there occurred during the year a fairly substantial exit of Europeans (Appendix, Table 2). By the same token, rural population figures increased, while urban dropped. Spaniards (who are by far the largest non-Moroccan community) accounted for the largest proportion of European departures, with all other major European countries remaining nearly even. The United States and Great Britain actually registered slight increases.

The movement of Spaniards had an important bearing on unemployment,

according to the Bureau of Labor which claimed that the uncontrolled immigration of workers from Spain and Spanish Morocco accounted for the most important segment of the Zone's known unemployed. A careful distinction must be made, incidentally, in referring to "known unemployed" because of the difficulty of determining the status of large numbers of Moroccans who eke out bare subsistence livings and who by European standards certainly are not adequately employed. Unemployment statistics fluctuated during the year according to official Administration statistics from a reported 5,579 in January to 5,000 in October to 7,194 in December (Appendix, Table 3 and Supplementary Despatch B). Persons registering with the Bureau for employment dropped from a 1953 total of 2,957 to 2,319 in 1954. In the latter year, 604 or 26% were placed as compared with 21% the previous year (Table 4).

The best news for workers involved a drop in the cost-of-living index of some 20 points (Table 5). Relief commensurate with the index drop, however, was not felt in most elements of the European community. Wages remained on the average relatively unchanged (Table 6). Meanwhile the Bureau of Labor and responsible elements of the press continued to call for the enactment of minimum wage laws, improvement in safety codes, classification and registration of workers, the establishment of Workers' Security Funds for all employees and other reforms. Perhaps most harmful to the morale of the poor of Tangier were the misery and desolation of Beni Makada, Tangier's bidonville area, on the one hand and the presence of 926 unoccupied low-cost housing units and hundreds more of unoccupied luxury apartments and villas, which remained inaccessible because of administrative snafus, the greediness of landlords, or the prolonged absence of their owners.

BANKING, BUSINESS AND INDUSTRY

Tangier's commercial life might be said to have three parts: the conventional, the unique and the bizarre. The conventional consisted of routine merchandising, normal imports and exports involving the needs of the Zone and its own production, ordinary banking involving checking and savings accounts, hotels, restaurants, etc. This type showed signs of stabilizing and even strengthening. The unique involved Tangier's role in transit and re-export trade, triangular financial transaction, free money market, entrepôt fictif facilities, safehaven for flight capital, radio relay base facilities, and residence for people desiring the financial and political freedoms of the Zone. This type lost ground in importance. The bizarre concerned smuggling, irregular exchange transactions, a reputation for wickedness (supposedly alluring to tourists), and alleged traffic in dope and women. This type, long overestimated and over-rated, receded farther into the past.

Banking: As many of the world's currencies narrowed the exchange gaps, Tangier banks and money changers found less volume and smaller profits in handling exchange transactions. Nevertheless a significant amount of this business continued to be transacted, supplemented by considerable financing of imports and exports, acceptance transactions, and related functions. Investment banking and brokerage assumed a greater role.

Rates of exchange between the peseta and the franc on the one hand and the

dollar on the other showed the dollar on a yearly average slightly below 1953 (Table 7). However, in December the peseta weakened rapidly to the advantage of the dollar. The trend was reversed briefly through efforts of Spanish official agencies, but the year closed with the peseta again slipping in relation to the dollar. Even with this minor flurry, the range of fluctuation for both peseta and franc was shorter than in previous years, much to the annoyance of local money changers. Gold in Tangier, resting in entrepôt fictif, totalled considerably less than in 1953, with the rate of withdrawals far exceeding deposits (Table 8). Variations above the fixed United States price remained so small that people found very little profit in the bullion trade.

Construction: It is not surprising that construction in Tangier fell off somewhat in 1954 below 1953 (Table 9). The more amazing is the fact that building continued anywhere near the tempo of previous years. With an estimated 8,250 Moroccan dwelling units and 3,300 European houses and apartments standing vacant, observers could only wonder at the logic which supported continued construction. Not only were apartments and offices which had been started several years ago completed, but ground was actually broken for entirely new projects. It could logically be concluded that many entrepreneurs were banking on a future boom so far not evident on the horizon, for few if any seemed willing to reduce rents in order to obtain tenants. One theory advanced in regard to the failure of rents to drop concerned reports that a steady influx of political refugees from French Morocco sustained the hopes of landlords that high rentals might still be eventually obtained. The year 1954 accounted for fewer real estate transactions than previous ones, but here again there was still a surprising amount of activity (Table 10).

Corporations: The registration of new corporations dropped moderately in number and in declared capitalization (Table 11). At the same time, there were slightly fewer business licenses issued than in the previous year (Table 12). The number of mortgages, if not the value, increased considerably (Table 13). The total number of bankruptcies also increased to a fair degree (Table 14). Prices of goods in the shops, professional services, and entertainment remained relatively high. One interesting development saw the formation of Tangier corporations, with unspecified intentions, by a number of celebrities including Errol Flynn, Greer Garson, Rita Hayworth, and Joseph Cotten. Glenn McCarthy entered in business with a local banker to sell Bolivian oil stock.

Production: The number and scale of Tangier industries remained small, largely because of the difficulties of sales abroad. Despite a good geographic location and cheap labor, businessmen felt that Tangier, in the absence of new commercial agreements with other countries and with the neighboring Protecting Powers, which have imposed restrictions on the International Zone's industrial potential, would continue to be limited in this activity. Most of the production of goods and services went to supplying the needs of the population. Tangier's first International Fair, held in the summer, demonstrated the lack of capacity of the Zone to produce goods of essential interest to foreign buyers. In the field of services, electrical energy usage increased slightly (Table 15) and the number of telephone subscribers also increased (Table 16). Water consumption dropped (Table 17), not from the lack of demand but of supply. The city faced a serious emergency in midsummer, with rationing and severe

penalties introduced to conserve meager supplies. Frantic proposals were advanced to solve the crisis, but the year ended with no sound plan under way and the prospects of a similar emergency in 1955.

FOREIGN TRADE

Imports into Tangier dropped slightly in 1954 while imports rose a small amount, thus reducing the unfavorable balance of trade from the 12-1 ratio in 1953 to 10-1 in the year under review. Like so many other unusual aspects of Tangier, however, this balance, which would be considered favorable by most countries, brought some concern to the local administration because of the resulting reduction in duties, its main source of income. Imports totalled 9,579,389,000 Moroccan francs (approximately $25,695,785), while exports totalled 996,327,000 Moroccan francs (approximately $2,672,550).

United States: The United States was again Tangier's main supplier and major purchaser of her goods. Tangier imported from the United States a total of 1,806,590,000 Moroccan francs ($4,846,003) of goods including automobiles, petroleum products, pharmaceuticals, textiles, cosmetics, electrical equipment, watches, cigarettes and miscellaneous consumer goods. It sold to the United States 137,810,000 Moroccan francs ($369,662) of hides, bird seed, spices, fruit, cork and vegetable fiber.

Other Countries: France ranked second, Spain third, Switzerland fourth, Great Britain fifth and Japan sixth among countries selling to Tangier. Among buyers of Tangier goods, Germany rose to second place, with Spain third, Belgo-Lux fourth, The Netherlands fifth and Great Britain sixth. (See Appendix, Supplementary Despatch C)

By Commodity: The leading imports by commodity into the Zone, in order of importance, were watches and clocks, automobiles, wheat flour, refined sugar and rayon textiles. Major exports, also in order of importance, included vegetable fiber, cork and cork products, bird seed, hides and skins. (See Appendix, Supplementary Despatch D)

Interzonal Trade: Various restrictions on interzonal trade remained in force throughout the year, limiting the volume of interzonal trade particularly as it applied to goods passing through Tangier bound for neighboring Zones. Tangier brought in primarily goods and products of Moroccan origin, while forwarding goods of foreign origin. (See Appendix, Supplementary Despatch E) In review, Tangier's deficit Trade Balance with the French Zone decreased slightly in 1954, while that with the Spanish Zone increased moderately.

Transit and Re-Export Trade: Lack of records on transit goods which did not enter customs and non-identification of goods bound for some forms of re-export, as compared to local consumption, again made it difficult to define accurately the scope and nature of this form of trade (See Appendix, Supplementary Despatch F). Using the same criteria as applied in the reference despatch (but with fewer figures since the estimate for 1953 was prepared in October of 1954), it might be estimated that Tangier's transit trade for 1954, with and without Customs Export Declarations, would total approximately $25,000,000, or

an amount slightly less than 1953. Moves to limit Tangier's transit trade were blocked during 1954, but may be expected to be renewed in 1955.

Soviet Bloc: Tangier imported a fair quantity of goods from the Soviet Bloc, including particularly cotton textiles from Czechoslovakia, men's shirts from Hungary and green tea from China. A small amount of cork and vegetable extract was exported to East Germany and Hungary. (See Appendix, Supplementary Despatch G) Both categories exceeded 1953.

TRANSPORTATION AND COMMUNICATIONS

Transportation: Following the trend of imports and exports, sea freight traffic statistics showed slight decreases in volume of imports and transit transportation, while export volume rose to a small degree (Table 18). Rail volume statistics increased. Fewer transoceanic and coastal vessels called at the port, but those which did evidently carried a slightly higher percentage of cargo and passengers than in previous years (Table 19). Tonnage of equipment moving by rail dropped sharply (Table 20). Car registrations in Tangier also dropped (Table 21). There was a slight decrease in aircraft movement, although a number of larger planes began landing in Tangier (Table 22). There was a modest increase in passenger travel by sea, road and air, with a decrease by rail which did not cancel out an over-all net gain (Table 23). Work was begun during the year on a 200-meter extension of the main harbor jetty, the construction of a 290-meter inner harbor quay to protect the yacht basin and extension of 237 meters in moorage space. A new 2,000-ton motorship, the Mons Calpe, began regular ferry service between Tangier and Gibraltar in September, eliminating travel through Algeciras and the Spanish border for travelers desiring to visit Gibraltar or to board passenger vessels at that point. The Committee of Control also liberalized Tangier entry and visiting regulations for nationals of countries other than those signatory to the Act of Algeciras.

Tourism: There was much talk of stimulating tourism during the year, and the actual number of tourists visiting Tangier in 1954 did represent some increase over previous years. Part of this increase could be attributed to those persons who had planned to visit French Morocco, but chose Tangier instead because of unsettled conditions to the South. On the other hand, Tangier doubtless lost a small proportion to the Spanish Zone, where an active campaign was under way to publicize the attractiveness of Ceuta, Tetuan and Chauen as tourist sights. The International Committee of Initiative and the official Office of Tourism presented a fairly active and varied program for tourists during the summer months, including sports events, the Fair, bullfights, concerts and other attractions. Boosters succeeded in persuading a number of international groups, such as the Interpol, to hold their annual meetings in the city. Beach and housing facilities for several hundred persons were made available to the Polynesian Club of Paris, which throughout the summer brought excursions of people to Tangier for periods of two weeks each to enjoy the sun and water of the Mediterranean. The matter of a gambling casino continued to be discussed, but no action could be taken by responsible authorities because of official Spanish opposition.

Telecommunications: The importance of the International Zone as an

important relay base was demonstrated by the continued impressive activity of RCA, Mackay, Voice of America, and the communication facilities of other countries. Some idea of the volume of commercial traffic handled by the wireless stations can be obtained from Table 24 which represents, however, only the tiny percentage of messages originating in and destined for the city of Tangier itself. Consideration was given during the year to a revision of the Zone's radio ordinance with an eye to protecting the future of American radio installations. In the field of entertainment broadcasting, the city's numerous commercial stations were extremely active, with Radio Tangier International constructing new studio facilities; other stations were also increasing power and transmitting equipment. The local telephone company was involved in a number of controversies over rates and jurisdiction vis-a-vis the Sherifian P.T.T.

THE FUTURE

Barring a major world upheaval, there do not appear to be in the offing events or circumstances, political or economic, which will produce major changes for the immediate future. Developments abroad, in the other Zones and Tangier itself, normally influencing the life of Tangier do not show signs of changing fundamental patterns. There is reason to believe that a majority of Tangerines are beginning to adjust to this fact. Therefore, most phases of economic activity may now be expected to remain somewhere near the present level. Chances of improvement or degeneration will be more directly related in the future to the initiative or lethargy of the Tangier businessman. The natural law of supply and demand and that of attrition are exerting a balancing influence on the economy. This is matched by a certain degree of Administration guidance and fiscal reforms, as evidenced by the presentation of a realistic budget for 1955.

Many recommendations for the improvement of Tangier's commercial life have been advanced, and some are being actively considered. However, their application is often made difficult by the peculiar political and social structure of the Zone, and the conflicting political interests of the powers involved. At one time or another various groups have suggested as possible remedies the following: the development of a free port and bonded warehouses; registry of merchant shipping under a Tangier flag, reduction of interzonal trade controls, modernization and adjustment of various taxes and fees in relation to costs and modern business conditions, increased consideration by Algeciras countries to the import of goods manufactured in Tangier, and further elimination of travel restrictions. These projects are all the subject of considerable controversy and their ultimate value open to debate. Perhaps of most importance, but equally difficult to achieve, would be the implanting in the people of Tangier of a sense of optimism, morale and pride in the natural potential of the Zone.

In all the welter of criticism about the inefficiencies and inadequacies of Tangier's administration, foreign and local observers as well are inclined to forget the many less known areas of the Zone's political, economic and social life where the cooperation of eight countries and the local population have achieved harmony and efficiency. The city is clean, attractive, relatively free of major crime, and provides essential services for most of its population. It is, in reality, a very real testimony to the fact that international administration can work.

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IMPORTANCE TO THE UNITED STATES

Tangier continues to have a political, economic and strategic importance to the United States, somewhat larger in proportion to its physical size. Its function as a site for some of America's largest commercial and official relay bases is of particular long-range value. It serves as an active market for American goods and helps finance a significant portion of United States foreign trade. Aside from United States Government employees, a number of Americans have established successful businesses in Tangier. These include bankers, representatives of American companies, shopkeepers and restaurant owners. Tangier serves as an attractive liberty port and leave center for United States Naval and Air Force personnel. There are Rotary and Lion's Clubs, mostly non-American in membership, but linked by tradition with the parent organizations in the United States. There have been occasional efforts to establish an American Chamber of Commerce.

The commercial value of Tangier to the United States is threatened at times by various problems. The possible revision of existing treaties affecting trade with Morocco might eventually prove detrimental to the commerce of the United States. Nationalist boycotts against soft drinks have indirectly hurt American-businessmen in Tangier. Plans to restrict transit trade, if implemented, would be harmful. However, in each of these cases, the Legation is taking steps to protect American interests, to advance other forms of protection if old ones are lost, or to facilitate the exploitation of new areas of commercial activities to replace those which might become unprofitable.

While recognizing the importance of Tangier to the United States, it may be well to bear in mind that the converse is also true. The United States is the main purchaser of Tangier products. The United States over the years has fought most actively to protect the integrity and interests of the International Zone. Finally, the United States has given tangible and touching evidence of its concern for the people of the area by the operation of the American School of Tangier, with a largely non-American student body, and by a recent gift of 5,000 food packages to the poor and the needy of the Zone.

J. C. Satterthwaite

Enclosures:

Appendix

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APPENDIX

POPULATION	1952	1953	1954
1. Urban-Rural Population			
Urban	150,000	162,110	160,323
Rural	22,000	22,000	23,000
Total	172,000	184,110	183,323
2. Population by Nationality			
Moroccan	120,000	120,000	122,500
Moslem	105,000	105,000	107,000
Jewish	15,000	15,000	15,500
Foreign	52,000	64,110	60,823
Spanish	30,000	40,000	38,000
French	8,000	8,000	7,500
British	1,700	1,500	1,634
Italian	1,300	2,500	2,500
Portuguese	1,000	1,200	1,200
United States	300	300	374
Belgium	500	450	450
Others	9,700	10,160	9,165
Total	172,000	184,110	183,323
LABOR			
3. Unemployment	3,231	5,579	7,194
4. Labor Bureau			
Registration of unemployed	2,885	2,957	2,319
Placed	469	609	604
Placement percentage	16%	21%	26%
5. Average Cost of Living Index			
Pesetas	275.8	265.51	247.36
Francs	220.3	233.11	202.86
6. Daily Wages in Pesetas			
Construction and building trade			
Skilled	101	95	88.34
Semi-skilled	52	49	49.40
Unskilled	27	30	32.85
Shop and industrial establishments			
Skilled	70-150	95	100-150
Semi-skilled	45- 72	45	60-90
Unskilled	35	35	30-40

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BANKING, BUSINESS AND INDUSTRY

	1952	1953	1954
7. Exchange Rates to the U.S. $1			
Average peseta rate	48.52	43.35	43.25
High-low peseta rate	52.00-46.60	47.30-42.40	45.10-42
Range of peseta fluctuation	5.40	4.90	3.10
Average Moroccan franc rate	413	397.60	372.80
High-law Moroccan franc rates	473-384	417-380	383-364
Range of Moroccan franc fluctuation	89	37	19
8. Gold in Entrepôt Fictif			
Imports (kilograms)	7,971	16,007	252
Withdrawals (kilograms)	7,378	15,035	12,527
Balance (kilograms)	50,107	53,079	40,803
Price at beginning of year	$39.00	$37.90	$35.20
Price at close of year	$37.50	$35.20	$35.00
9. Building Activity			
New construction permit value	$8,655,861	$4,014,675	$3,522,381
New construction and repair value	$9,447,013	$4,499,413	$3,853,900
10. Real Estate Transactions			
Number	1,396	1,055	958
Value	$3,263,791	$1,987,498	$2,270,775
11. Corporations			
New registrations:			
Number	502	270	236
Value	$4,518,535	$1,734,772	$1,262,402
Capitalization increase:			
Number	78	50	26
Value	$7,218,712	$ 753,641	$ 915,938
12. Business Licenses			
Establishments paying business license tax (includes professions)	7,909	8,840	8,200 E)
13. Mortgages			
Registered, number	151	195	316
Registered, value	$1,829,744	$2,157,188	1,669,122
Liquidated, number	95	90	100
Liquidated, value	$ 747,628	$ 646,563	859,503
Outstanding, number	332	437	[redacted]3
Outstanding, value	$3,251,313	$4,761,938	5,644,571

E) Estimate

	1952	1953	1954
14. Bankruptcies			
Number	12	17	23
15. Electric Energy Consumption (thousands KWH)	18,629.4	21,265.0	22,961.4
Lighting and domestic use	11,921.5	13,285.7	14,039.2
Industrial	6,707.9	7,979.3	8,922.2
16. Telephone Subscribers	5,976	6,892	7,640
17. Water Consumption (cubic meters)	2,595,719	2,810,673	2,547,429

TRANSPORTATION AND COMMUNICATIONS

18. Freight Traffic (metric tons)			
Sea:	264,748	218,114.9	214,962.1
Import	203,247	161,790.9	153,031.3
Export	39,347	33,578.2	41,830.0
Transit	22,153	22,745.8	20,100.8
Rail	20,303.7	15,893.7	18,104.5
19. Port Movement			
Number transoceanic vessels	382	416	334
Number coastal vessels	2,786	2,476	2,454
Number transoceanic and coastal	3,168	2,892	2,788
Net metric tonnage (thousands of tons) all vessels	2,090.5	2,228.4	2,626.8
20. Rail Movement			
Tonnage of equipment registered in Tangier	87.6	84.1	59.1
21. Road Movement			
Number passenger cars entry-exit	NA	16,423	17,000 E)
Number vehicles registered during year	1,116	946	873
Number vehicles registered end of year	10,010	10,956	11,829
22. Aircraft Movement			
Number commercial planes	3,111	(2,996	2,062
Number private planes	510	(	289
Number military planes	856	476	354
Metric tonnage, total	49,459	46,649	50,415
23. Passenger arrivals and departures	685,681	679,050	706,241
Sea	176,584	135,369	172,[illegible]5
Rail	75,680	66,344	48,954
Road	387,692	429,148	430,069
Air	45,729	48,189	54,273

E) Estimate

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	1952	1953	1954
23. cont'd (Passenger Arrivals and Departures)			
Arrivals all means, total	344,372	334,718	352,873
Departures all means, total	341,309	344,332	353,368
24. Communications Traffic, Cable and Wireless, Tangier-United States, Thousand Words			
Originating United States	518	404	393
Originating Tangier	392	340	250

SUPPLEMENTARY DESPATCHES

A. "Tangier Budget, Receipts and Expenditures, January 1-December 31, 1954," Unclassified No. 365, February 24, 1955

B. "Labor Situation in Tangier During 1954," Unclassified No. 369, February 28, 1955

C. "Value of Total Imports and Exports by Major Country of Origin and Destination," Unclassified No. 379, March 4, 1955

D. "Value and Volume of Imports and Exports of Major Commodities," Unclassified No. 380, March 4, 1955

E. "Value and Volume of Interzonal Trade," Unclassified No. 382, March 4, 1955

F. "Tangier Transit and Re-Export Trade," Official Use Only No. 171, October 12, 1954

G. "Trade with the Soviet Bloc," Unclassified No. 381, March 4, 1955

SOURCES

Bureau of Economic Affairs, Tangier Administration
Bureau of Labor Affairs, Tangier Administration
Tangier Customs
Various Banks, Local and American Businessmen
Previous Despatches

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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY PARIS

1938
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON

March 15, 1955
DATE

REF : CERP D-9; Casablanca Despatch 115, 11-24-54
Casablanca Despatch 150, 1-5-55

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SUBJECT: Views of French Industrialists' Confederation in Morocco on the Moroccan Trade Problem

There have recently come to the Embassy's attention certain remarks expressed by the President of the Confédération Générale du Patronat au Maroc, M. P. Cousergue, and one of his colleagues, M. L. Cruse, concerning the Moroccan trade problem with special reference to the "sans devises" imports, the Hague Court decision of 1952, and the prospects for modification of the customs regime associated with the Act of Algeciras. In view of the recent developments in connection with French intentions to introduce a quota regime for textiles and certain other products in Morocco, the Embassy feels that these statements made in the name of the French business community in Morocco are of more than routine interest, warranting translation in full and transmittal to the Department and to the consulates in Morocco as background material. Particular attention is called to the opinion expressed by M. Cruse and backed by M. Cousergue favoring the establishment of a legal free exchange market in Morocco for currencies other than the French franc.

The transmitted statements of Messrs. Cousergue and Cruse have been translated, rather freely, from the report published in late November 1954 on "The Economic Equilibrium of the Franc Area" by the Comité d'Études et de Liaison du Patronat de l'Union Française, a body which links the patronal organization of France (the C.N.P.F.) with similar employer federations in other parts of the French Union. According to an introductory note, these studies were begun at the conference held in Casablanca on May 12, 1954, and were continued at meetings held in Paris on June 23 and September 1954. Member organizations were invited to make known their views on the various speeches and articles submitted, and a final general discussion was held September 30. The conclusions of the deliberations of these conferences and meetings were officially adopted by the C.E.L.P.U.F. in a special session held November 9, 1954. Apparently, the chapters from the report transmitted herewith are more than mere working documents, but presumably they do not necessarily represent the official position of the entire patronat of the French Union in all respects. However, the officially adopted general conclusions include the following paragraph on the Morocco trade problem:

> "As concerns Morocco, the Plenary Conference confirms its previous position that that country obviously requires a tariff which is differentiated and adapted to its economic evolution, and that, moreover, it

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cannot remain in a state of economic 'neutralism' left aside from all major economic zones. The status provided by the Act of Algeciras must be completely revised. The French Government should devote the most active attention to this point, and the political transformations which may occur in Morocco will undoubtedly provide an opportunity for acting in this domain."

Harry H. Bell
per gg

Harry H. Bell
Second Secretary of Embassy

Enclosures:

Annex I: The Economic Status of Morocco and its Evolution
Annex II: Trade Liberalization in Morocco
Annex III: Conclusions
Annex IV: Possibilities for Revising the Act of Algeciras

cc: AmLegation Tangier)
AmConGen Casablanca)w/encls
AmConGen Rabat)

APPROVED:

B E L Timmons

B. E. L. Timmons
Acting Minister for Economic Affairs

Cleared with Mr. Robert Moore, POL.

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ANNEX I

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Translation

THE ECONOMIC EQUILIBRIUM OF THE FRANC ZONE

(Proceedings of the Plenary Conference, Casablanca May 12, 1954; Paris June 23 and September 30, 1954)

Comitè
/d'Etudes et de Liaison du Patronat de l'Union Française, 31 av. Pierre Ier-de-Serbie, Paris, 16eme.

Morocco
The Economic Status of Morocco and its Evolution

by
M. P. Cousergue
President of the Confederation générale du patronat au Maroc

Since the purpose of my contribution is to define the economic status of Morocco and to trace its development, I shall divide my exposé into three parts.

In a brief historical note, I shall summarize the conditions of economic life which have been imposed on Morocco by international agreements, the political aspects of which I shall not go into; I shall then show how our economy has developed up to the present time in the light of these imposed conditions; finally, after having shown the nature of the data of the problem, I shall examine the fate which the future holds in store for us.

Chapter I - The Act of Algerciras

The Act of Algeciras of April 7, 1906, which still constitutes the customs charter of Morocco, is closely related to the earlier relationships of the Sherifian Empire with the Western powers. Indeed, at the time of the 1906 negotiations, Morocco was bound by numerous commercial treaties involving customs duties of an exclusively fiscal character.

For, at that time, the tariff policy of the Sultan was dictated entirely by fiscal considerations; economic preoccupations were not taken into consideration; there was no thought either of protecting local products against European competition by customs barriers or of favoring the international markets of the local products.

This explains the essential provisions of these conventions and particularly the 10 percent ad valorem duty applied in general to all foreign imports into Morocco.

The spirit of such agreements, which in the past had usually been concluded ad hoc under the pressure of budgetary needs is revealed by the provisions of the Act of Algeciras, which maintains in effect all the treaties of the signatory powers with Morocco, inter alia, the Hispano-Moroccan Treaty of March 1, 1799, the Anglo-Moroccan Treaty of December 9, 1856, the Commercial Convention with Spain of November 20, 1861, the Germano-Moroccan Treaty of June 1, 1890, and the Franco-Moroccan Commercial Agreement of October 24, 1892.

The Convention of Madrid of July 3, 1880, signed by Morocco, the United States, Germany, Austria, Belgium, Denmark, Spain, France, Great Britain, Italy, The Netherlands, Portugal, Sweden, and Norway stipulates in Article 17: "the right to the treatment of the most favored nation is recognized by Morocco as belonging to all the powers represented at the Madrid Conference".

France, which was primarily preoccupied with its political objective, willingly made the concessions demanded of it in the economic field. Thus, the regime of equality of the powers embodied in the Convention of Madrid was consecrated by the Act of Algeciras which transformed it into a principle of international law. Whatever their origin, their source, the flag under which they were shipped, or the nationality of the importer, all goods reaching Morocco by sea pay, in general, an identical duty. Earlier treaties fixed the rate at 10 percent ad valorem, the Act of Algeciras merely added a tax of 2.5 percent for the benefit of the special fund for public works.

Agreements subsequent to this Act did not modify these principles, France committed itself by the Franco-German Treaty of November 4, 1911, article 4, to abstain from any inequality in establishing customs duties. After the installation of the Protectorate, France likewise committed itself to concert with Spain in connection with any modifications made in the future in the customs status (article 12 /art. 19?/ of the Franco-Spanish Treaty of November 27, 1912).

Likewise, article 103 of the Act of Algeciras stipulated: "In the region bordering on Algeria, the enforcement of these regulations shall be the exclusive concern of France and Morocco." A dahir of January 14, 1922, required imports by land to pay a duty of five percent ad valorem, dating from the 1902 conventions. And a dahir of July 5, 1928, completed this duty with a 7.5 percent tax collected at Taza and which isolated Eastern Morocco from the rest of the Sherifian Empire.

But subsequently, at the time of the suppression of the cadenas of Taza, a dahir of June 18, 1936, set up a special regime favoring regional trade between Algeria and Morocco. Certain products of Algerian origin imported directly across the common frontier are admitted with exemption of the tariff duty and the special tax of 2.5 percent within the limit of a quota in valued terms fixed annually by a vizirial arrêté.

The possibilities of revising the Act of Algeciras fall within the diplomatic domain. It is nevertheless possible to envisage, while remaining faithful to the principles which it sets forth, making more flexible the conditions imposed by the earlier and later treaties which I have mentioned and particularly the Anglo-Moroccan Treaty of 1856.

This was the purpose of the Franco-British Treaty of July 18, 1938, but which has never been ratified. It would have established a differential tariff, would have set up a system of quotas, and in brief, returned to Morocco its customs autonomy.

The Franco-British Treaty of July 18, 1938

At the time of signature of the Convention of July 29, 1937, by which Great Britain renounced the capitulatory regime from which it benefitted in Morocco, the two governments agreed "in considering it opportune to open negotiations for the purpose of establishing commercial relations between Morocco and Great Britain on

new bases corresponding to the respective economic interests of the contracting parties." It had likewise been agreed that the new treaty would be based on the principal of reciprocity.

Begun in London in December 1937 and continued in Paris in January 1938, these negotiations resulted on July 18, 1938, in the signature of a treaty which abrogated the convention of 1856 and restored to Morocco its tariff freedom with respect to Great Britain. In general, it provided on each side for most-favored-nation treatment of all subjects which are ordinarily stipulated in commercial agreements. Any commitment taken by Morocco was to correspond to a similar commitment by Great Britain. Article 15 of the treaty abrogated the treaty of 1856. The agreement had a duration of seven years, with tacit renewal.

Customs duties were consolidated on certain products, most of which had already been the object of regular commerce between the two countries; they represented about 60 percent of British imports into Morocco in 1936 and 80 percent of Moroccan imports into Great Britain the same year.

The consolidations agreed to by Morocco would have permitted, in most cases, increasing the tariff from 10 percent to 12.5 or even 15 percent, assuming such increases to be judged opportune. They involved products which together would have represented about 20 percent of the total imports from all sources into the French Zone, which would have left the Protectorate not only sufficient fiscal liberty but also interesting possibilities for negotiations with other foreign countries. The special tax of 2 1/2 percent ad valorem established by the Act of Algeciras was expressly maintained.

Great Britain had agreed to admit without duty vegetable horsehair, alpist, fenugreec, and coriander which had up till then been taxed at 10 percent ad valorem (these four products represented in 1936 about a fifth of Moroccan imports into England) and to consolidate either the free entry — notably for phosphates, which in 1936 constituted nearly a third of the imports from Morocco — or the duties in effect for certain other products.

On each side it had been agreed that the ad valorem duties could be transformed into specific duties and vice versa.

The signature protocol stipulated particularly that the most-favored-nation clause would not extend to the Algero-Moroccan frontier region and that the equality of taxes with respect to international duties foreseen by article II would be deferred until the customs tariff should have been revised.

In the exchange of letters annexed to the treaty, the British Government recognized in general the right of Morocco to impose quota limitations on imports on bases of allocation equal for all countries. In return, Morocco committed itself to conform to certain rules favoring British trade in case the quota system should be established in Morocco.

Various annexes completed the treaty. One of them enumerated the products (including cotton goods) which should obligatorily be subjected to quotas if the quota regime were established in Morocco and established periods of reference for these

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products, while another annex defined the general rules for calculating, allocating, and administrating the quotas.

It was provided, on a reciprocal basis, that Morocco would benefit from equitable treatment in connection with quotas for its imports into the United Kingdom.

Further, the British Government recognized Morocco's liberty in the matter of customs regulations.

The treaty was to enter into effect on the day of exchange of ratifications. That day never came.

Other negotiations entered into/in 1939 with the United States gave the hope that that power would renounce the capitulatory rights, the Act of Algeciras, and the principle of economic equality unlimited in time or in object. This development was brutally interrupted by the war. This has since been regretted on numerous occasions and particularly when the Franco-American difference of opinion was brought before the International Court of Justice in the Hague in 1952.

Chapter II

Principal Stages of Development of Moroccan Economy

A. Before the 1939 War

Morocco at the beginning of the century was a country almost entirely shut off from Europe. Foreign trade was insignificant; everything remained to be done in such a new country, and the western spirit of enterprise had full rein in the agricultural, commercial, and industrial fields. The impetus was masterfully given by Lyautey. It did not let up after his departure. In 1924, Morocco's debt was barely 500 million francs; ten years later, 15 billion francs had been invested, of which five billion in public loans and eight to ten billion in large private enterprises. Three billion had been spent on the railroads, one billion three hundred million on the ports, 440 million on roads, 500 million on electrification, and 550 million on dams and agricultural hydraulic engineering.

Private capital followed this movement; urban development showed astonishing progress. Leaving the Medinas to their traditional life, great modern cities were built in Casablanca, Marrakech, Rabat, Mecca, Fez, etc. In 1934, urban investments could be estimated at some four to five billion francs.

While this development was taking place and transforming the aspect of the country, colonizers occupied uncultivated land and developed it at a rapid pace. The burden of this enormous effort could not be borne by the resources of the nascent Moroccan productive capacity. From the beginning, therefore, the Protectorate's budget had to take recourse to financial support from the Metropole.

Soon the consequences of the open door regime without effective reciprocity became evident. In 1933, for example, the signatory powers of the Act of Algeciras sold in Morocco nearly three times as much goods in value as they bought there. As for the other powers to which the benefit of the open door had been extended, the ratio of sales to purchases was six to one. The same year France sold in Morocco less than twice what it bought there. This imbalance troubled many thoughtful persons. Thus, the development of an industry able to satisfy a portion of the internal needs for manufactured goods and, in the longer run, to export, appeared to be a significant factor which might favor equilibrium of the balance of payments.

The Quota Regime

Another means of diminishing the trade deficit was to facilitate Moroccan exports, particularly toward France. The Law of March 18, 1923, which only made general the principle established by that of November 15, 1921, regarding the export of native rugs to French territory, established in favor of goods from the French zone the so-called "quota" regime. It provided for the entry into France and Algeria of a certain number of goods free of duty within the limit of allocations fixed annually by the Government.

The initial list included only agricultural products. After 1923, the economic development of Morocco progressed so rapidly that the French Government envisaged in 1927 extending customs advantages to other than agricultural products, facilitating their access into France.

As actual shipments from Morocco were regularly less than the quotas granted, a further step was taken. President Poincaré, in his capacity as Minister of Finance, proposed the abrogation of the quota system and the entry free of duty without quantitative limitation of all Moroccan production other than wines, grapes, wheat, and derivatives. This proposal was not carried out.

Nevertheless, a Law of April 2, 1932, extended to other Moroccan products the free entry regime and particularly to manufactured goods.

This quota system which has continued to be extended and perfected since that time has been one of the principal bases of the economic development of the Protectorate. France, by adopting this system, wanted to show by an extremely liberal gesture its deliberate will to support the Moroccan economy in strict conformity with its protective mission. In this manner, France has made Moroccan production benefit from the protection reserved for its own market, which has permitted a rapid development of Moroccan production. To show what the state of development of Morocco was on the eve of the war, I shall note that consumption of electrical energy rose from nil in 1912 to 20 million KWH in 1926 and 142 million KWH in 1938. In 1939, the total value of exports were 1,780,000,000, representing about 80 percent of imports. Examining the figures more closely, one notes that our trade with the Metropole and French Overseas Territories was approximately balanced in the neighborhood of a billion francs. On the other hand, the deficit in our balance with the other countries was 450 million; our exports barely covered two-thirds of the imports from such countries.

Such was the situation of the Moroccan economy after 33 years of experience with the unmodified Act of Algeciras.

The concern which had for several years been aroused by this situation had already led to the Franco-British Treaty of 1938, the taking effect of which was being awaited when the war came.

B. <u>During the War</u>

From 1940 to 1945, events oriented Morocco, which was cut off from the Metropole, toward an autarkic policy; during these years, the efforts and ingenuity of the industrialists were remarkable although the circumstances prevented any long-term program or renewal of equipment; existing activities worked to the limit of their possibilities; others were created with equipment which was often rudimentary. Nevertheless, they succeeded in covering the essential needs of the country and in furnishing the consumer with the greater part of the goods previously imported.

The fluctuations of foreign trade clearly show for the 1940-1945 period a retrogression in the country's activity.

C. <u>From 1946 to 1950</u>

However, beginning in 1946, an extraordinary recovery occurred characterized by a much tighter knitting of the economic ties with France than before the war.

This interdependence of the French and Moroccan economies continued until about 1953 when the increasing disparity between French and foreign prices and the consequences of the decision of the Court at The Hague in 1952 began to separate the two economies.

During these five years, 1946 to 1950, countries of the EPU and dollar area devoted their own activity to their reconstruction and conversion of war industries. On its side, Morocco was the scene of an equipment and productive effort supported by the Metropole, which was becoming by far its principal customer and supplier.

First, it was necessary to rehabilitate a productive apparatus that was almost ruined by the absence of maintenance and replacement; and it was necessary to do this quickly because the demand was so great. The State took over the responsibility of providing basic equipment and the infrastructure of energy and communications. The Moroccan budget of one billion in 1938 amounted to 61 billion in 1950 of which 27 billion was for new projects. In other domains, free enterprise was allowed to look after itself without State intervention.

It would appear that this cooperation was well harmonized because a comparison of the Morocco of 1938 with that of 1950 shows its astonishing effectiveness. International railroad traffic, which had been 400 million kilometer tons in 1938 rose to 1,200 kilometer tons in 1949. The annual number of automobile registrations rose from 3,000 in 1938 to 13,700 in 1950, and electrical consumption rose from 142 million KWH in 1938 to 481 million KWH in 1950.

In ten years, the number of working hours in the mechanical industries rose from 300,000 to 2,500,000. A similar expansion was shown in the agricultural field.

In 1938, Morocco had a foreign trade of 3,500,000 tons; it rose to 7,800,000 tons in 1950. In the same period, exports rose from 2,300,000 to 5,900,000 tons. But if one looks at these figures a little more closely, one sees not only an increase in the volume of exports but also in their unit value, which is double evidence of the increase of production and of the elaboration of production by industrial manufacturing processes so that it is no longer only raw materials which are exported.

Another characteristic of Moroccan foreign trade in 1950 was, as I have just said, a tightening of the commercial bonds with France. The Metropole's participation, which was 45 percent of the total in value in 1938, rose to 70 percent. The reason for this is to be found in the fact that the Metropole, in the situation of scarcity in which it found itself, bought in Morocco all the goods it could. A consequence of this fact was a price osmosis between the Moroccan and French markets, resulting in their equalization, a situation quite different from that before the war when the level of Morocco's prices was less than that of France.

This change in orientation has been catastrophic for certain Moroccan export industries which, because their costs were aligned on excessive French prices, could not compete successfully on the world market in which competition was becoming more bitter every month.

This was the case for the fish canning industry, the development of which had been considerable.

Exchange Control

This disconnection of Moroccan prices could only be maintained by the operation of the exchange control created on September 10, 1939, at the beginning of the war. As M. Marty pointed out in his study of the Moroccan franc, that regime is only the consequence of an evolution which began in 1912 with the establishment of the French Protectorate, the principal stages of which have been marked in the monetary sphere by the creation of the Moroccan franc, the establishment of the Operations Account, and the measures for establishing or eliminating the enforced legal-tender character of the currency.

Institution of exchange control was sufficiently justified by necessity. Moreover, the signatory powers to the Act of Algeciras have never raised the least observation on this subject.

The same was true when, at the time of the Bretton Woods Agreements, Morocco was classified in the Franc Zone. Having as its purpose the control, and consequently, the limitation of trade between Morocco and countries not belonging to the Franc Zone, the exchange control inevitably separated the Moroccan market from markets abroad. There resulted therefrom an increase in our prices in comparison with world prices.

D. From 1950 On.

Beginning in 1950-51, the Moroccan economy appears to have been advancing only on its momentum, as though the dynamism which had caused the statistical curve to rise had died out. To be sure, this exhaustion is not brought out immediately in the figures. It is only in 1953, for example, that one can note the decline in building activity. But certain industrial sectors were already touched by the symptoms of a crisis, the origins of which differ in each branch of activity.

Fluctuations of foreign trade between 1949 and 1953 seem to indicate that the year 1951 was the summit of our economic expansion. It is not irrelevent to note that the economic recession of 1950-53 was immediately preceded by a severe revival of commercial competition on the world market. I have already noted that for several years the ex-belligerent countries and those countries which imported a portion of their consumption goods from those countries made an effort to reconvert, develop, or reconstruct their industry and to satisfy their internal markets. However, beginning in 1948-49, these markets being saturated, their commercial efforts turned toward international markets. At the same time, the liberal hopes of OEEC were sacrificed on the customs barriers which were raised on every hand, with foreign governments encouraging their producers to export by facilitating their access to raw materials under free-entry conditions, by reimbursing their social charges, by granting them preferential transport rates, and by reducing their taxes, etc.

Morocco, being the only country in the world which could not or thought it could not, without international complications, raise its customs barrier of 12.5 percent, has quickly become the ideal dumping ground for surplus products and also for unsalable and defective goods, and the unsold remainders of the entire world.

The young industries of Morocco, themselves faced with severe competition not only on the external markets on which some of these industries -- such as fish canning --

had already obtained a foothold but also within the open frontiers of Morocco, where they were already handicapped by the very fact of having to import their raw materials at a customs duty raising their prices 12.5 percent above world prices.

Although it had seemed possible in 1938 and although it had perhaps been possible in 1946 (in case the experiment had been tried) to return to Morocco its customs autonomy, in 1950 neither England nor, above all, the United States (the position of which hardened still more after the end of the Korean War) were any longer disposed to listen to proposals which would have had as their purpose increased difficulties of access to the Moroccan market, which was still exploitable without limitation.

E. The Hague Court Decision

The Franco-American dispute, which was settled by the decision of August 27, 1952, of the International Court of Justice at The Hague, is the best proof of this.

This controversy was provoked by the application of an arrêté of the Resident General in Morocco dated December 30, 1948, subject to licensing the so-called "sans devises" importation of foreign goods.

This licensing system was itself a consequence of the exchange control of which I have spoken above and which involved, not only a system of delivery of foreign exchange by the Moroccan Exchange Office for imports requiring monetary transfers, but also a system of authorization with respect to imports for the settlement of which the importer does not request delivery of exchange from the Exchange Office but instead makes his settlements either by means of foreign exchange which he himself holds or in Moroccan currency, if this is acceptable to the foreign exporter.

This system of licensing constituted a precaution such as is frequently found in other exchange-control countries, with the intention of avoiding the use of these operations to disguise fraudulent maneuvers violating the exchange regulations. Up to 1945, the system of imports without exchange had not raised difficulties. But, beginning that year, following the establishment in Morocco of new American traders, the regulation of imports without exchange gave rise on the part of these latter importers and their consular authorities to more and more emphatic protests.

The interested persons invoked the principles of commercial liberty and economic equality inscribed in the treaties binding the Sherifian Empire. Commercial liberty, they said, is restricted by a measure which is in itself restrictive; but above all the equality of foreign countries is violated by the fact that imports of goods from France are the only ones to escape the licensing regime.

On March 11,1948, an arrêté of the Resident General eliminated the requirement of import licenses except for a certain number of listed products. The considerable development of imports which followed this liberal measure brought about a disturbing fall of the franc on the free exchange market and rapidly compromised the status of our currency. There had been established via the financial relay of Tangier a clandestine trade, the francs obtained by the sale of imports without exchange being used in the clandestine purchase of dollars for new imports and thus seriously affecting the exchange market. It was necessary to take a backward step; the system of licenses was re-established by the arrêté of December 30, 1948. As American protests became more

and more violent, the French Government took the matter to the International Court of Justice at The Hague on October 28, 1950.

The Court examined various problems and brought a solution in its decision of August 27, 1952. For example, it refused to the United States the right, which the United States had claimed on the basis of the regime of capitulations which they had never renounced, for its ressortissants in Morocco to escape application of local laws, taxes, and the jurisdiction of the Moroccan tribunals. Moreover, to recognize fiscal immunity in favor of the United States ressortissants alone would not have been in conformity with the principle of equality of treatment in economic matters, the basic principle of the Act of Algeciras. Thus, the decision consecrated the almost complete disappearance of the last vestiges of the capitulatory regime in Morocco.

However, as concerns Moroccan international obligations in the economic field, the Court adopted entirely the American point of view on the discriminatory nature of the arrêté of December 30, 1948, and condemned that regulation as contrary to the principles of economic equality contained, on the one hand, in the Act of Algeciras and, on the other hand, in Article 24 of the Americano-Moroccan Treaty of 1836, under the terms of which "whatever indulgence, in trade or otherwise, shall be granted to any of the Christian powers, the citizens of the United States shall be equally entitled to them."

From the moment that the Court adopted an absolutely strict interpretation of the stipulations of the international treaties, the French thesis had no chance to win because it was based on the idea that these stipulations were to be interpreted not only in the light of the intentions of the signatories in 1906, but also in the new light of the facts of international economic life in 1948. That is what happened. This is not the place to go into the question of whether it might not have been possible, perhaps without great difficulty, to have saved the trouble of the lost case.

Once judgment had been rendered, the French Government could either maintain the license regime, extending it to imports from France, or return to freedom of imports without exchange.

The second solution was adopted by the Resident General's arrêté of October 1, 1952. Nevertheless, in order to limit the risks of a collapse of the Moroccan currency, the consequence of which would have been borne by France, this arrêté contained certain reservations. Thus, the elimination of the authorization regime was only applicable to goods originating in "countries having the right to invoke in this manner the benefits of the Act of Algeciras", and the general import restrictions were maintained or could be proclaimed on certain products. Finally and above all, the importer of goods acquired without official allocation of exchange was required, if requested by the administrative services responsible for the implementation of the exchange control, to describe the use of the proceeds from the sale or the utilization of the imported goods, since these funds necessarily had to be invested in the Franc Zone.

What have been the effects of the rebuff we suffered at The Hague and of the restrictions of the arrêté of October 1, 1952, which tried to raise some obstacle to the possible flood of sans devises imports? It took a year for it to be realized,

first of all, that on the principal point we had lost the case at The Hague; furthermore, that this open wound in our economic system, which as I have pointed out was already suffering from the shock of international competition, provoked an unhealable hemorrhage; and finally, that the decision consecrated the injustice to French and Moroccan importers, who were deprived by the exchange control of the right to effect imports without exchange.

If the export industry, such as the canning of fish and fruit juices, had already undergone serious blows on the foreign markets, the new regime of sans devises imports brought war within our very frontiers and, at the beginning of 1945, was about to lead to the closing down of our textile industry. The experience of March 1948 should have made it predictable that the same causes would result in the same effects. It was simply that these effects were a little more slow to be felt, because the mild restrictions in the arrêté of October 1, 1952 — against which, moreover, the American businessmen established in Morocco protested vigorously but without succeeding in provoking a second court case — required a little effort of imagination to be evaded.

On several occasions, I have described the mechanism of combinations of deals which result in introducing on the Moroccan market sans devises goods at dumping prices, something which at first sight would seem paradoxical in view of the fact that free exchange is more expensive than official exchange. I shall cite to you two or three cases: my examples are far from being exceptional.

By the intermediary of an American firm, importers purchase without license goods in the quantity desired from countries of the European Payments Union; they settle in free dollars. The attraction of the free dollar and the advantages given to European exporters who bring dollars into their country make it possible to buy almost any kind of goods in this manner, so that it is only the naïve who resort to imports with licenses and with use of official exchange. The clandestine transfer of capital, in this case francs, takes place through Tangier, or better still through Zurich because there it is not necessary to have the francs moved fraudulently; it is a question of a pure and simple book transfer of an American firm or bank; and the operation of purchasing the dollars is very easy to do with Zurich.

Another device: France gives to exporters in hard currency, dollars, or sterling a refund of 14.60 percent. Moreover, the French exporter has at his disposal a percentage of exchange which he can repatriate at a high rate in an E.F.AC. account. The goods are invoiced in the name of a straw man in a free port; for example, Gibralter. From there the straw man re-ships to Casablanca. This is how Morocco has received French textiles sold to Yugoslavia within the framework of the Franco-Yugoslav Commercial Agreement at cost prices far less than those obtained when the imports are made directly from the Metropole.

Another combination is based on the fact that the Spanish Government, in order to encourage exports, grants for dollars exchange rates 20 percent below world rates so that a product costing 22 cents may be sold in Morocco at 18 cents. Importers established in Casablanca thus brought in during 1953 two million meters of printed textiles from factories in the Barcelona region paid for in dollars.

By similar systems, imports of used clothing, in some lots of which there were often brought in new items, rose from 800 tons to 5,500 tons in 1953.

Furthermore, certain American firms have established themselves in Morocco in order to profit from this legislation; they do not make the imports themselves and are content to lend their name for a five to six percent commission.

F. 1953, Crucial Year

Several concommitant factors were thus at work to sow trouble in Moroccan economy, the expansion of which had been extraordinary from 1944 to 1952. From 1950 to 1953 whole sectors of activity brusquely collapsed or found themselves threatened. The increasing prosperity of certain other activities did not succeed in disguising the anxiety of the business world.

For the first time in the last 10 years, the curve of Moroccan foreign trade showed in 1953 a decline in comparison with the previous year, both as concerns imports (minus 5.2 percent in value) and exports (minus 2.1 percent). However, the coverage of imports by exports hardly fluctuated: 55 percent in 1953, 53 percent in 1952, 55 percent in 1951.

The second salient fact of 1953 was the net decline in imports from the Franc Zone; minus 10 percent, and particularly from France: 11 percent. The retrogression of imports from the Franc Zone is only partly to be explained by the decrease in requirements connected with the public work projects, the majority of which are today in the course of completion. It corresponds above all to the considerable increase in imports from non-EPU countries (more than three billion francs or about 47 percent) and to a less important degree, imports from the Dollar Zone.

The first months of 1954 confirmed this decline. For the first two months the total volume of trade decreased about 738 million francs from the corresponding period of the previous year.

It appears that there is now getting under way an economic splitting-apart of France and Morocco which must necessarily give food for thought, as the possible consequences may be serious.

Before continuing in this line of thought, I think it is necessary to describe the underlying facts of the problem which must some day be faced in all its scope.

Chapter III

The Basic Facts of the Problem

The diversity and subtlety of the means used to remedy an insufficient customs apparatus have given the Moroccan economy a special character. No guiding philosophy determined the recourse to these palliatives. Morocco's economic doctrine has just grown up according to the orientation of the Moroccan economy, by a series of isolated measures each of which had only the aim of providing first aid to a particularly threatened branch of Moroccan production.

In reality, these patch-work, sometimes contradictory measures do not constitute a valid economic doctrine, and we are suffering seriously from the lack of a coherent economic policy. In order to have one, we should have to work up a balance-sheet of the resources and possibilities of Morocco in all fields, agricultural, commercial, industrial, financial, and monetary, to put our finger on the weakness of those sectors which should disappear, on the future of those which should be maintained, to estimate the Moroccan national accounts, to derive therefrom useful conclusions, and to define a long-term policy.

Don't expect me to define such a policy, as such a task has to be preceded by a vast economic research project, such has never been undertaken in Morocco; I should simply like to give you some idea of the complexity of the problem by indicating several basic facts and sketching a few possible solutions, among which I shall try not to choose prematurely for the reasons I have just explained.

A. Demographic Pressure

The first fact of the Moroccan economic problem seems to me to be the demographic one. Our sanitary and economic accomplishments, by abolishing the selective ordeals of epidemics and famines, have had the result of tripling in forty years a population which could be estimated in 1912 at 3 million inhabitants. In any study of Morocco, regardless of the topic, we must never lose sight of the fact that each month some 10,000 additional inhabitants are born who will have to be lodged, nourished, clothed, educated, given medical care, and employed. All our thoughts, all our decisions must be dominated by the idea of these 10,000 monthly Moroccanos who come to join the masses of their compatriots.

Although this demographic surge seems to submerge our economic and financial possibilities, we must nevertheless try to combat with all our means against the resulting misery. Morocco is undergoing that paradoxical evolution which makes a lowering of living standards the unexpected result of the improvements and equipment from which there should have resulted a greater happiness. We are running a tragic race in which, up until now, we have kept ahead. But each year, each month, the demographic surge gains ground.

The least weakness of our economy would risk our falling behind in this race and would bring about disastrous social and political consequences: France would have to admit itself beaten. We are certainly not at that point yet, but we shall rapidly come to it if we let ourselves be absorbed in the narrow problems of our individual firms, whether they be agricultural, commercial, or industrial, without thinking of

connecting them with the general problems which condition them, if we wanted to judge the future of Morocco on the basis of our year-end balance-sheets, to follow a short-sighted economic policy, and surreptitiously to nibble away at the principles of a situation inherited from our grandfathers.

Ten thousand supplemental inhabitants a month. Who will absorb them? Agriculture? We know how much difficulty the agricultural organizations are having in educating the fellah, in encouraging him to abandon his ancestral methods of cultivation for modern techniques, to save in order to provide himself with less-rudimentary tools. He is making progress, but so slowly that the progress of agricultural productivity is not up to the increase in the population.

Handicapped by an exaggerated fractionalization of land, by extremely impoverished soil, by the lack of fertilizers which are too little used by the indigenous population, by the lack of modern tools, agriculture sees not only its yields remain very low but also its costs greatly exceed those in countries of great crops. Remember that the output of wheat per hectare is 4.2 quintals in Morocco as compared with 19 quintals in France, 21 in Norway, 26 in Great Britain, 29 in Belgium, not to mention the United States, Argentina, or Canada.

With such a low output how would it be possible to reduce costs of production and to compete successfully on world markets?

The basic economic problem of Morocco is to be found in this stagnation of the bled, which cannot absorb the demographic surplus as long as the per-hectare output will not have risen from four to ten or 15 quintals of wheat.

I know that the authorities insist on bringing new land into production. But, as our Director of Finance said in a recent speech, we must not have too many illusions on the results to be expected from irrigation: for, on the one hand, Morocco does not have so terribly much water at its disposal; on the other hand, the irrigation of a hundred or so thousand hectares requires numerous years and represents expenditures of the order of 30 billion francs. One hundred thousand hectares of land effectively irrigated would permit the feeding of a hundred thousand families; that may be quite a large number in absolute terms but not very many by the standards of Morocco as a whole. We also have to know what we are going to grow on these irrigated lands, and whether it will be possible to sell the product.

Don't count on petty commerce, with which the distribution network is already clogged, to give employment to these 10,000 supplementary inhabitants per month. But perhaps we can put more hope in industry, even though its absorptive capacity -- more rapidly expandable to be sure than that of agriculture -- may not be able to bring about a radical solution for the distress of the unemployed. It employs 250,000 workers, corresponding to a population of more than a million inhabitants. It is thanks to industry that we have hitherto been able to keep ahead in the race I just spoke about. But what will happen if its productive effort and the creation of new factories are discouraged?

Morocco, unlike Algeria which derives therefrom its political and social calm, does not have the safety valve of emigration of 250,000 workers to France who send back every year to their country of origin 30 billions in wages and family allowances distributed among a million and a half inhabitants.

That is why there flows to the city, and particularly to Casablanca, a ceaseless current of internal migration of young men, without professional qualifications, rejected by the bled, having in their hearts the hope -- frequently in vain -- of finding work. That is why the shack-towns /bidonvilles/ continue to spread their leprosy into the suburbs without the Government's effort of permanent construction succeeding in reducing them. That is why these déracinés contribute, if not in statistics, at least in daily life, to the reduction of the living standard of the worker already employed, because, without work or lodging, they are dependent on vaguely related tribes, and, moreover, disturb the labor market by offering their services at remunerations lower than the minimum wage. That is why, also extremists find in these hollows of misery attentive ears for their subversive slogans, human instruments for their assassinations, and men who want to destroy the structure of a society which is foreign to them.

B. Existence of an Industry

This brings me naturally to a second basic fact of the Moroccan economic problem; the existence of an industry. It is open to discussion whether Morocco might not better have remained content with its agricultural and pastoral character, although the example of most European industrial regions shows that high agricultural yields are generally associated with developed industries. It could be observed that the establishment of a good proportion of our industries has been possible only thanks to liberties taken with the Act of Algeciras (e.g., the exchange control born of necessity) or thanks to political circumstances which have prevented import competition. No matter. Let us look at the given facts of which account must be taken. Industries exist; billions of francs are invested. It supports hundreds of thousands of Moroccans; it is becoming one of the essential factors in raising their standard of living, a safety valve for demographic pressure. Each year it distributes billions in wages and taxes.

Many thoughtful persons say that there are some questions on which it is impossible to move backwards. This thesis does not lack validity. The war-time period which cut Morocco off from the Metropole and for several years dried up the flow of essential imports from abroad obligated this country to live on its own resources and consequently to become industrialized. Would it not now be unfair to close down firms which have rendered immense services in a difficult period and to renounce the investment of billions which the French Government had encouraged? Furthermore, the future in the international field does not seem so promising with respect to a long period of peace that one might contemplate such destruction.

Industry contributes, moreover, to the establishment of a balance in Moroccan production between agricultural products threatened by bad harvests and mining products subject to world market fluctuations. It is a considerable source of wealth through the inflow of capital which it stimulates, the income it gives to manufacturers, the consumption of energy, the distribution of wages, the attenuation of the trade deficit, and taxes.

Finally, as I just said, industrialization has profoundly modified the social structure of Morocco and has given birth to a proletariat in which unemployment already exists and which it would be humanly bad, socially unfortunate, and politically dangerous to cast back into misery.

To work out a new economic policy for Morocco, as some do, while ignoring industry or contemplating its total or partial elimination does not seem sufficiently realistic.

The desire to allow Moroccan industry to compete on an equal footing with world industry is not a recent one. Thus, a dahir of June 30, 1933, set up compensation taxes on the import of certain products; the formula was entirely reasonable since it prevented that type of dumping which constitutes unfair competition and a breach in the principle of economic equality.

The motivations determining that decision were, on the one hand, the special conditions of industrial production or commercial organization abroad which in fact involved, for certain products, direct or indirect export subsidies; on the other hand, the competition brought about by these products under conditions contrary to the principle of economic equality, with similar articles of foreign origin or local manufacture; and, finally, the damage done to the Treasury by the decline in customs valuation.

This dahir was prepared as a general protective measure against unfair competition. However, before implementing regulations could be made, all the countries protested so that there remained only one power having a certain amount of trade with Morocco to which the dahir of June 30, 1933 might be applied: viz. Russia. Up to the present time this dahir has never been applied.

I have gone into some detail on the history of the anti-dumping dahir because it illustrates the successive degradations and the emasculations to which are subjected the application of official measures, and, still more frequently, the projected measures — often quite useful and effective — which are worked out in the administrative services.

In addition to the numerous types of pressure exercised by private interests, there are added international protests which take little interest in the future of Morocco but which are preoccupied with the defense of 10, 20, or 30 foreign nationals established there.

It is amazing to note that all the efforts accomplished in favor of trade, agriculture, and industry, and they are numerous, appear to be only palliatives for special situations and do not succeed, as formerly, in protecting against the deterioration of our economy. I shall tell why later on.

What, for example, have been the facilities given up to now to our industry? Before enumerating them, I shall repeat the remark made one day by our Director of Commerce and Merchant Marine, and which is never re-emphasized too often, namely, that these facilities have not the purpose of protecting at any price those industries which are not economically viable. It is merely a question of defending industries which would normally be viable in a modern economy against certain practices which distort the normal play of free competition both on the internal and external markets. In other words, Moroccan industries must be given the means to fight with equal weapons with competing industries in the international arena.

First, I cite the temporary entry of a certain number of products and the drawback system applied to certain others.

Moroccan industry profits, like agriculture, from the quotas admissible in free entry into France, and which constitute, as I have said, the keystone of the structure of the Moroccan economy.

Free entry or entry at a reduced tariff has likewise been granted by a French decree of May 4, 1951, to Moroccan products imported into French West Africa.

After the decision of The Hague, exchange quotas and particularly dollars have been granted more liberally by France to Morocco in order to facilitate access to raw materials and equipment. Similarly, large global quotas were opened with respect to EPU countries.

Finally, I shall mention the E.F.A.C. account which permits industrialists to dispose freely of a portion of the exchange proceeds of their sales abroad at very real advantages which should not be underestimated.

But there remain many measures to be taken if Moroccan industry is to be placed in conditions of production similar to those of its international competitors. It would be necessary for the raw materials utilized not to be taxed upon customs entry with a duty of 12.5 percent ad valorem, that the price of its electrical energy and of its water not be one of the highest in Europe, that the products which it would like to export not be subject to fiscal taxes on exports when other countries, on the contrary, grant among other advantages to their exporting industries the reimbursement of social charges, preferential transportation rates, refunds of all kinds, and give them the benefit of an export credit policy which we are lacking. Similarly, there should be eliminated customs duties and taxes on certain basic sources of energy such as fuel oil, coal, etc.

These measures would still leave us far from attaining an excessive protection for industries in Morocco. However, even if we did achieve such excessive protection, the problem would still not be solved because of other factors.

To use a strategic metaphor, what is the use of building an impregnable Maginot Line if there is left open an entire sector by which the adversary may outflank it? Well, we are trying, through the measures I have just mentioned, to construct a coherent economic system while leaving an open door at our back. And when foreigner appears in that door we seem surprised and give vent to our ill humor at seeing the collapse of our hopes and -- what is more serious -- those accomplishments which we had built on sand.

These misfortunes will only be renewed in the future and will be aggravated by the fact that there is now more invested capital and more interests are committed.

In a small country such as ours, the interdependence of economic sectors is very close. Commerce, which binds together agricultural, industrial, extractive and mining productions, shipping, and consumption, is dependent on all of these activities. The interests of these sectors may sometimes seem contradictory and to give birth to transitory conflicts; that is inevitable. But they are all living together and if one declines, it will not be long before the others follow.

Morocco has reached a delicate stage in its growth in the sense that it is torn -- almost drawn and quartered -- between its international past and its present membership -- already far advanced -- in the Franc Zone. It is high time for it to make a choice.

C. Inclusion in the Franc Zone

Third fact: the more and more pronounced inclusion of Morocco in the French economy. I have shown that the origin and necessity of this occurrence resulted from the Treaty of Protectorate, that its development corresponded to the tremendous post-war economic boom and industrialization, that its instruments have been the quota system and exchange control.

This inclusion in the Franc Zone has cost France a considerable financial effort, because Morocco's own resources are far from sufficient to provide its equipment, not only now but also in the indefinite future. Just realize that the economic development plan provides for a total expenditure of 180 billion francs, representing 45 billion annually for four years, of which 130 billion for the public sector divided as follows:

--35% for basic equipment,
--30% for agricultural equipment,
--35% for social equipment.

The equipment budget provided by the Protectorate has continued to increase: 21 billion francs in 1949, 35 billion 1953, and despite a slight decrease in 1954 (32 billion) its share in the total budget has risen to more than 55 percent. Agriculture alone will absorb in 1954 more than 10 billion (or 31 percent of the investment expenditures), vocational education two billion, Moroccan housing one billion 850 million, etc.

Thus the French contribution becomes more indispensable each year, all the more indispensable because each equipment installation involves large operating expenses; a one billion franc investment in education involves an annual cost of 250 million and in public health an annual cost of 150 million. Our local budget has a hard time keeping up with our development.

Therefore, France has to aid us through the metropolitan Modernization and Equipment Fund: last year to the tune of 17 billion and this year 16 billion; the financing takes the form of 25-year loans and one and a half percent interest. Even though the rate is very low, the charge for amortization and interest on these loans now reaches several billion francs.

As for private investments, they are more difficult to estimate: but it is undeniable that a large part of this capital comes from France. Each year a thousand companies are formed. The capital of the new companies in 1953 amounted to five and a half billion and, in the same year, increases in capitalization amounted to 11 billion.

The financial effort accomplished by the Metropole creates ties which it would be ungrateful not to acknowledge and dangerous to break asunder in the search for a valid economic policy.

We have examined the facts of the problem for which we search a solution.

We must take account of other facts: I am thinking now of the very definite present tendency toward a return to total freeing of foreign exchange. Morocco cannot ignore this tendency at the moment when it is determining its economic policy, especially now that it is returning to its prewar orientation.

I yield the floor to M. Cruse, who will ably explain to you how Morocco could effectively adapt its general economy to the possible changes which would be brought about by such a development.

ANNEX II

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TRADE LIBERALIZATION IN MOROCCO

by M. L. Cruse

The principle of commercial freedom and of equality of treatment affirmed in Morocco by the Act of Algeciras poses in particular circumstances the general problem of trade liberalization, The system of imports without licenses has, indeed, already partially accomplished this liberalization, without--as a counterpart--Morocco being able to defend itself by customs protection.

The incidence of trade liberalization in France on the Moroccan economy is dominated by a fundamental question. How can a country which is on a free-trade basis by international treaty defend its own industry? Is such a defense possible and appropriate, taking account of the repercussions on the consumer and on other sectors of activity?

The problem being thus delimited in space, it should also be situated in time. Born in a compulsory climate of liberty, Morocco has had to adapt itself to the slavery of an exchange control imposed by the war. Again, today, the choice is theoretically open between the maintenance of a system which risks aligning Morocco on the weaknesses of the Metropole and a return to first principles which would condemn it to vying with the best.

The absence of any definite policy could hurt the consumer and certain basic activities to the profit of the acrobats of a controlled economy, who are prompt to utilize the legal or illegal loopholes that control inevitably leaves open.

Any solution will be a compromise. The entire activity of a country can only be protected at the detriment of the importer, that of the manufacturer only at the detriment of the farmer. Among such complex and apparently divergent interests, the simplest settlements are best. So, since Morocco is condemned to liberty until decided otherwise, why not see whether this liberalism, generally considered as obsolete, might not furnish a solution? This experiment could lead Morocco to a progressive liberation of foreign exchange the sole prerequisite of a real liberalization of trade, even though, by doing this, it might be a step ahead of the Metropole, which has been held up by other exigencies.

Thus the problem comes down to one of studying the appropriateness of a progressive return to the pre-1939 regime, reconciling that policy with the present situation resulting from the war, and the reasonable objectives of the Moroccan economy.

I. Desirability of a Gradual Return to Foreign Exchange Liberty

It is no longer necessary to describe the benefits of fair competition and of the free play of the old law of supply and demand. It is mainly a question of the practical means of such a liberalization, compatible with the inclusion of Morocco in the Franc Zone, which must be considered before one can foresee the concrete results.

1. **Means:**

Judging from present exchange rates, exchange liberalization may seem easy and therefore perhaps useless. For a dollar at the official rate of 350 francs, the free rates from Tangier to Geneva passing through the Paris black market range from 352 to 368 francs.

These rates are nevertheless arbitrary since compensation deals show a valuation of the dollar higher than 400 francs and since E.F. AC. dollars — for the very small percentage negotiable — have been dealt in in France as high as 700 francs.

But, moreover, these rates, about which a valid judgment can only be made in terms of purchasing-power comparisons, should show more freely the fluctuations of supply and demand. The exchange rate would then play its role of natural regulator.

As there is no question of brutally changing a situation of fact, this return to liberty, certain consequences of which are difficult to foresee, should be effected by stages, the authorities retaining the freedom to accelerate, retard, or even to reverse (if necessary) the development. Well, since the E.F. AC. account procedure exists, it seems natural to utilize it, no longer as a rather shameful palliative but rather systematically.

The existence of these E.F.AC. accounts answers, furthermore, the previous objection according to which a trade liberalization in Morocco is inconsistent with its inclusion in the Franc Zone. With regard to the dollar area, where the commercial scarcity of exchange remains disquieting, Morocco benefits from 25 percent of negotiable E.F.AC. exchange as compared with three percent in France, without the parity between the French and Moroccan francs being affected. What is true for 25 percent can be true for 30 or 35 percent. Thus, without a spectacular upset, it is possible to envisage the experiment of a gradual return to currency convertibility, even if Morocco precedes France.

A Metropolitan Frenchman would have no more possibility of buying exchange in Morocco then than he has today, since foreign exchange would only be delivered in counterpart of Moroccan commercial operations. The customs services would simply have to be vigilant with respect to the importation of Metropolitan goods which would come in order to be disguised in Morocco for the purpose of benefitting from a more favorable exchange rate.

Supposing that, when the evolution reaches its conclusion, E.F.AC. exchange would represent 100 percent of the amount of exports and that the exchange market would thus be freed, the fluctuations of a floating rate might interfere with transactions.

At a given moment in this evolution, the creation of an exchange stabilization fund will doubtless appear necessary. E.F.AC. exchange being quoted officially, the daily and seasonal variations could be corrected by a forward market. But it would be dangerous if a fortuitous influx of exchange, such as might result, for example, from the installation of American bases in Morocco, distorted the rates long enough to provoke trade currents which would not survive the financial consequences of such a strategic accident.

The stabilization fund, while regularizing the natural fluctuations of the market, could spread out over a period of time an influx of exchange such as would result from these special payments or else it could make it coincide with the acceleration of a public equipment program requiring foreign exchange.

Juridically, this fund could be considered as functioning also for the supply of French francs. But demand for French francs would be immediately satisfied in order to maintain the parity, which could moreover be fixed in a monetary agreement.

Finally, the stabilization fund could be authorized to buy foreign exchange on foreign markets, particularly Tangier or Zurich, thus equalizing rate levels the present disalignment of which encourages trade deals of an uneconomic nature.

A deliberate policy of active but to some extent limited intervention with respect to exchange rates still has aspects of the controlled economy. But it is more related to the means of action at the disposal of a liberal economy, such as those used by central banks in adapting the rediscount rate to credit needs.

2. Direct consequence of a gradual freeing of the exchange market:

Certain advantages of this exchange liberalization are immediately obvious. An insufficiency of exchange will bring about a rise in the rates rendering certain imports more difficult and exports more easy. This tendency to decrease the disequilibrium of the trade balance can be accentuated by capital movements, as foreign investments would benefit from a more advantageous rate. Doubtless capital movements will still have to be regulated, if only to avoid the creation in Morocco of a breach in the system for defense of the entire Franc Zone. But the attraction of Morocco for foreign capital will remain, which is necessary and normal in a new country.

Moroccan products will naturally be protected and French products will be favored relative to foreign products.

Finally, there will appear a gradual alleviation of administrative charges, in proportion as the list of goods benefitting from exchange allocations at the official rate shrinks. The hierarchy of needs from the indispensable to the useless and the element of choice on the part of those benefitting from cheap foreign exchange are a function of individual evaluations and are consequently susceptible of arbitrary judgments. It is sufficient to remind ourselves how much the taxpayers have to pay to maintain the policy-forming and enforcing administrations, how much time is lost in démarches, preparation of files for applications, and how great are the indirect costs implied by the existence of specialized services in the bureaucracy.

Directly offsetting the advantages of a freeing of the exchange market will be an increase in certain prices. Tea, sugar, cotton appear even in subsistence-level budgets. At the first stage, these imports would continue to benefit from exchange at the official rate, then only a part of them. If the experiment was carried to its conclusion, all imports would be financed by free purchases of exchange at the rate of the moment.

But Morocco is a little country, and the question arises whether it could do without the exchange pool, benefitting from its own exchange receipts but only its own. In 1953, the dollar contribution of the American bases more or less equilibrated the balance of payments, whereas Morocco had only covered 20 percent of its imports with its exports. Even though, in 1954, the size of the American payments is to diminish, it is nevertheless true that the moment is favorable for an experiment in the liberal direction.

Moreover, the exchange allocations by the Franc Zone pool, whether or not they come from the U.S.A. could continue if the general economic situation required and permitted it. Furthermore, they could either be made available directly at the official rate of the Metropole for certain indispensable imports or, more logically, be ceded to the stabilization fund for use in general intervention with respect to the free rate.

It is still true that repercussions, moderate or accentuated, will be felt on the price structure. But before 1939 and the inauguration of exchange control the Moroccan was already consuming tea and sugar. In any case, the present maintenance of the disequilibrium in the trade balance will only put off the solution of a problem that is becoming more serious. It is time to proceed with a gradual reform before an economic system based on a seriously distorted price system provokes a real monetary catastrophe along the well-known lines of galloping inflation and bankruptcy of the State.

The process of reform, which if made now can be kept under control and spread out over a period of time, will permit Morocco to attain without major shocks to its natural economic structure, which will then facilitate its inclusion in a wider monetary system.

II. Repercussions of a Freeing of the Exchange Market on the Moroccan Economic Structure

Freed from the artificial competition resulting from the present exchange rate both with respect to imports and exports, would the Moroccan economy, rendered vulnerable by the open door regime, then be able to face world prices? The answer to this question depends on whether one considers natural competition or the various kinds of dumping.

1. Natural competition:

On the basis of the average rate now practiced for E.F.AC. exchange or for compensation deals, import goods will be increased in price by the difference between such rate and the official rate. To this will be added the 12.5 percent in customs duties and the cost of transportation. Each Moroccan producer should examine this point, taking as a basis for departure the low prices of these same goods in the countries of origin. But it would seem that, if on the basis of these calculations local production shows higher costs, the production in question would really turn out to be one of these questionable activities which originated in exceptional circumstances. This does not mean that we should condemn them without judging, but rather that we should study such cases and only facilitate their survival if their basic vice can be corrected. The solutions can be found in three formulas: concentration, reconversion, disappearance.

These comparisons are not in general unfavorable to Morocco. The country's industrial activity is, in the first place, oriented toward the domestic market, whether it is a question of raw materials transformed locally or, better, still, the utilization of local raw materials.

In these conditions, taking account of the advantages for the consumer of a really competitive market, it would not seem to be to Morocco's interest to demand a systematic policy of customs discrimination. Experience shows that such a policy is hard to turn back and is contagious. Everyone can find a valid reason for demanding the protection from which his neighbor benefits, and which the authorities may be tempted to grant all the more easily because it seems to increase budgetary receipts. That is when there are developed artificial activities susceptible of increasing the cost of living and, indirectly, new budgetary charges.

Nevertheless, if local production can be protected against foreign competition by free exchange rates, the same is not true as concerns the competition of the Metropole. The trade deficit with France, still balanced by contributions of public and private capital, is now a problem of only secondary urgency, but which will some day have to be settled in order to decide which budget is to bear the burden. The budgetary deficit will then play /vis-à-vis France/ the role of protective screen which vis-á-vis foreign countries will be played by the free exchange rate system.

In any case, Morocco without customs protection will be vulnerable with respect to France and the countries with which the balance of payments will be in balance. It is sufficient to recall briefly the principal causes of the fragility of the Moroccan economy: new equipment implying heavy amortization charges; insufficiency of financial reserves; high cost of energy and certain raw materials; absence of heavy industry; a very small number of consumers having normal purchasing power, thus eliminating the possibility of mass production.

A first remedy might be found in exempting imports of raw materials used in Morocco from all or part of the customs duties. There does not seem to be any effective budgetary way of offsetting this other than by corresponding increase in duties on finished products, without discrimination by origin.

The Sherifian Government could, moreover, be given the right to impose provisional surtaxes on certain goods until such time as local industries would have attained their majority. This right is dangerous. It is thus important to limit its exercise by compulsory consultation of a mixed commission in which sufficient private interests are represented so that the general interest will prevail.

Finally, as concerns exports, Morocco is justified in continuing to demand measures of reciprocity. If Moroccan producers give the impression of using the open door policy just as a source of controversy until such time as their efforts result in a reform of the Act of Algeciras, they will not get much credit from achievement of a liberty which they condemn in their speeches. If, on the other hand, they agree to set up the objective of liberty as an intentionally constructive doctrine, it can be used as a weapon for getting their adversaries to put their own laws into line with their declarations. Only France has practiced with regard to Moroccan products a liberal policy, which has been justified by the extent of its responsibilities.

The customs weapon, even when prudently wielded, would moreover have the advantage of being usable against real dumping.

2. Abnormal competition:

The word "dumping" is dangerous. Sometimes it is merely used as a synonym and excuse for the word "competition". However, "dumping" is a reality which can be studied in its three forms, governmental, financial, and commercial.

It is not dumping if a government exempts exported national goods from the difference between the taxes normally borne by these goods in their country of origin and those borne by similar goods in the buying country.

There is dumping if the government systematically exempts exports from a portion of taxation greater than the lowest common denominator of taxes in modern states. This is still more the case if it is a question of subsidies.

In general, this contribution would not be sufficient to get over the obstacle of import customs duties and transportation costs. It can be sufficient for some marginal goods. But, if the importing country in turn wants to defend its national production, it will raise its duties further. Whence the absurdity of this war of refunds and surtaxes, which ends up by having the taxpayer of the exporting country pay the taxes of the importing country.

A freeing of foreign exchange constitutes a partial palliative for this anomaly. If excessive financial encouragements are given to exporters to Morocco, there will result a higher demand for exchange. The rate of the currency in question will be increased, rendering more difficult the sale of the goods exported. Thus, the rise in the exchange rate must naturally tend to cancel the advantages given at the start. This adjustment may, however, be slow, and will therefore not avoid temporary disturbances.

Here again customs protection, still of limited scope and depending on the amplitude of the financial advantages mobilized by the exporting country, could permit the use of compensatory taxes.

Purely financial dumping will for the most part be combatted effectively by freedom of the exchange market.

In a more or less flagrant manner, but spectacular as far as the U.S.A. is concerned, certain countries sometimes prefer to give the money of their own taxpayers to another state to buy the products of their own nationals rather than to reduce their taxes and favor local consumption of these same goods. As the financial aid of the United States permits a country to maintain an artificial exchange rate thanks to a supply of dollars independent of the balance of payments, it provokes monetary disalignments which are reflected by an official rate and a rate sometimes called free, sometimes parallel, sometimes black.

Exchange freedom together with the intervention of a stabilization fund will avoid these disalignments within a country or in the foreign markets, such margins being exploited by certain specialists in license-free imports. The system could usefully be

rounded out by requiring certificates of origin when the inclusion of a third country in the deal makes possible an evasion of the laws of the two countries concerned. But this triangulation will itself be less profitable as soon as it happens that the exchange rates in certain foreign markets no longer show a higher valuation of the franc than is attributed to it within its own monetary system.

Commercial dumping is the hardest to fight, because it is difficult to determine where competition ends and where dumping begins. The producer who uses abnormally low prices to conquer a market should not be condemned a priori. A price war rarely lasts long and, after the necessary adjustments, an equilibrium is finally established. In the extreme hypothesis, the biggest producer tries to smother the little ones so as to be able to reign supreme in the market afterwards. The consumer is thus only very temporarily favored. Anti-trust laws in one form or another can partially prevent this danger, which is more spectacular than frequent.

But Morocco is more vulnerable than most countries because of the narrowness of the market. Therefore, an outside producer, whether French or foreign, can consider that a marginal part of his mass production, representing only a relatively small percentage of his turnover, can be reduced in price to the extent of the fixed charges, amortization charges, and even of the general expenses. He will then be in a position to use real fighting prices. This quantity of goods may bring about serious disturbances on the internal Moroccan market. The Moroccan producer, who does not have the same margin of safety, finds himself defenseless.

Morocco may then find itself cluttered up with tag-end lines of goods, the purchase of which will long be accessible to the low-income population. It does not seem practical to put into operation the only effective protective means, which would be a Sherifian Import Office corresponding to the Sherifian Export Office and having the task of controlling the quality of goods entering the territory. Compensatory surtaxes would be a dangerous weapon to wield and would run the risk of inconsistency with the exceptional and delicate character of the weapon of customs policy.

The only sound protection against commercial dumping is to be found in the correct functioning of professional groups and still more in social progress. As long as low-income Moroccans have neither the means nor the taste to demand at least a minimum of quality, serious firms will always be at a disadvantage vis-à-vis a certain clientele, whether the competition be of foreign or local origin.

It would, indeed, be illusory to think that purely technical measures, such as the freedom of the exchange rates, or a limited customs intervention can resolve all these problems. Such measures may favor a needed reform, but they are insufficient taken by themselves to bring about a real economic expansion.

It is up to another study to enumerate the measures needed to reinforce the agricultural structure of Morocco, to equip it industrially, to develop the purchasing power of its inhabitants.

To conclude, the movement of opinion tending toward modification of the Act of Algeciras is partially motivated by the contradiction between the artifice of exchange control and the maintenance of the "open door". Liberation of foreign exchange can

facilitate a return to Moroccan orthodoxy, by permitting liberalism to manifest its compensatory mechanisms. It is the suppression of the natural checks which keeps the mechanism from working.

Certain articles of the Act of Algeciras may require revision today or tomorrow, even if only on the hypothesis of including Morocco in a Eurafrican system. But its basic principle remains valid.

Between a distributive economy of the socialist type and a primitive barter economy all sorts of nuances are possible. But one must make a basic choice. This choice is difficult in that it always takes a certain amount of courage to choose freedom.

ANNEX III

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CONCLUSIONS

by M. P. Cousergue

In the light of these reflections, what solutions for the general economic problems of Morocco can be envisaged?

First, that of the status quo ... But is this really a solution? We don't think so. A modern country like Morocco needs a coherent economic policy and long-term objectives; we cannot build such a policy by a process of attacking the difficulties one by one as they arise, by bringing forward ad hoc solutions, which may be effective but are sometimes contradictory with the decisions which will have to be taken shortly thereafter.

This pragmatism was perhaps a valid policy in the past before the basic conditions in Morocco had become crystallized. It is no longer valid today.

It is not enough to say that almost all persons who reflect on these questions feel that something has to be changed in the Moroccan economy, since it is likely that these views differ as to the nature of the change required.

In any case, it is impossible to envisage the long-term future without taking account of the strength of the idea of a European Political Community. France, in contemplating its participation in the European Union, has tried to safeguard the unity of the French Union and the constitutional ties between the Metropole and the Overseas Territories while refusing any intervention by the supra-national authority in its economic or political relations with these territories.

But it has not defined its position as regards the territories which do not belong to the French Union but whose international relations it manages, especially Morocco.

However, two articles of the draft treaty of the European Political Community, drafted by the ad hoc Assembly, would permit France to include Morocco in this Community.

If the political problem can thus easily be solved, the same is not true of the economic problem because of the rules of the Act of Algeciras.

Indeed, as President Imberti recently remarked in an article which attracted much attention, if the essential purpose of the European Community is considered to be the creation of a common market among the member States, Morocco can only be integrated with Europe if it excludes from its own market other countries not belonging to the Community. For, by virtue of the principle of economic liberty without any inequality, if Morocco is able to suppress its customs barriers, it must suppress them for everyone and, to the degree it is able to raise them, it must raise them for everyone in the same manner. Leaving aside these difficulties which might be raised in the course of the negotiations preparatory to inclusion of Morocco in the ensemble of the European Political Community, it would not appear that any other solution can be envisaged combining so many advantages both on the political and economic planes. We have learned

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from the report of M. Cruse that by coming back to the first principles of trade, Morocco will find itself placed in the most favorable conditions for being included, without economic shocks, within a general European economic system.

Summarizing, the future of Moroccan economy seems to us to require: (1) a progressive increase in E.F.AC. quotas, the only way in which we can contribute to trade liberalization; (2) a customs regime better adapted than the present one, established on a basis analagous to that of the Franco-British negotiations of 1938 which would have restored to Morocco the customs freedom indispensable to the creation of a modern State, and, moreover, exempting imported raw materials from duty; (3) finally, the integration of Morocco into a European Community under conditions that the two above-mentioned measures will give us time to negotiate.

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ANNEX IV

Possibilities for Revising the Act of Algeciras

The Act of Algeciras of April 7, 1906, is essentially a political agreement. The economic element is secondary. The principle of commercial liberty and equality is shown in the following manner:

Preamble:

"Inspired by the interest attaching itself to the reign or order, peace, and prosperity in Morocco, and recognizing that the attainment thereof can only be effected by means of the introduction of reforms based upon the triple principle of the sovereignty and independence of His Majesty the Sultan, the integrity of his domains, and economic liberty without any inequality...."

Article 105:

"With a view to assuring the application of the principle of economic liberty without any inequality, the Signatory Powers declare that none of the public services in the Sherifian Empire can be alienated for the advantage of private interests."

It must be emphasized that this principle was almost universally in effect in that era of free trade and also that the Act of Algeciras concerns commercial liberty and equality for imports. It could not have applied to local industrial production, which was non-existent at that time.

Furthermore, these economic requirements were the corollary of the political conditions of the agreement and the natural result of the political situation at that time, i.e., the situation of the signatory powers as among themselves and vis-à-vis the Sherifian Empire.

This political situation having been completely transformed after 1906, and especially after the Treaty of Fez of March 30, 1912, setting up the French Protectorate over Morocco, it may seem surprising that there was maintained an out-of-date economic regime which was only justified by a political situation long since superseded.

Moreover, certain provisions fell into desuetude at the time of the Treaties of Versailles and St. Germain-en-Laye, even though France did not solicit or obtain the agreement of the twelve signatories of Algeciras (international character of the State Bank, Article 49: renunciation of German and Austrian rights. There were likewise abandoned: the two percent limitation on the tax on real estate transfers, the method of applying the proceeds of fines and confiscations, expropriation procedures, granting of concessions, etc.)

Measures of prohibition were taken (imports of alcohols, weapons, babouches, unbleached textiles, game, jewelry, rugs, wines, etc.; exports of butter, fish, livestock, etc.,) and exonerations or reductions of duties were granted.

All these provisions were taken by dahir without arousing any protest from foreign powers; this was normal moreover, because the subsequent Treaty of Protectorate entrusted France with the tutelage of Morocco and because a country has the right to freely dispose of the power of regulating its economic life. Article 1 of the Treaty of Fez stipulates:

> "The Government of the French Republic and His Majesty the Sultan are in agreement with respect to instituting in Morocco a new regime carrying with it such administrative, judiciary, educational, economic, financial, and military reforms as the French Government may consider appropriate to introduce on Moroccan territory."

Economic reforms were thus provided for in this treaty.

This thesis was justified by the attitude taken by Great Britain at the time of the reform of the status of Egypt. Indeed, by the Franco-British Treaty of April 8, 1904, England renounced the political equality of the powers in Morocco, but obtained the maintenance of the economic liberties, of which advantage was subsequently taken by the other powers, through the application of the most-favored- nation clause.

Article 4 of the Treaty of April 8, 1904 reads as follows:

> "The two Governments, being equally attached to the principle of commercial liberty both in Egypt and Morocco, declare that they will not, in those countries, countenance any inequality either in the imposition of customs duties or other taxes, or of railway transport charges."

In the annexed secret articles the two contracting parties stipulated that, in case the two Governments should come to change their policy in Morocco or in Egypt, these changes should never infringe on their mutual commitments regarding the economic, commercial, and strategic conditions of the country.

Well, the Egyptian customs regime was changed by the Law of February 14, 1930. The uniform tax of eight percent ad valorem was replaced by a semi-specific, semi-ad valorem tariff. Why could not the Moroccan Protectorate follow the example given by England in Egypt? As for the United States, which benefits from the most-favored-nation clause, it is well known that this clause is always accorded on a reciprocal basis. It would thus be easy to maintain that, in the absence of reciprocity, Morocco has the right to close its doors to various goods from that country.

To summarize, the French and Sherifian Governments would have at their disposal certain possibilities for changing the customs status of the Protectorate by a new agreement with Great Britain (subject to an agreement with Spain), if they considered this desirable.

The best proof of the accuracy of this preliminary conclusion is furnished by the history of the Franco-British negotiations of 1937-1938.

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SUBJECT: Influence of the U.S. Airbase Program Upon the French Moroccan Economy

PARIS-1 Casablanca-- USD-4 AIR-3
Rabat-4

Survey

American expenditures in French Morocco under the air base program have averaged about $58 million per year since the program's inception in May 1951. This annual outlay, after conversion into local currency exceeds one third of the entire Ordinary Budget and approximates five percent of the national income--an essential prop under the shaky local economy.

The direction of this expenditure has been as helpful as the amount. Through heavy consumption of public utilities at full price rates and the award of lucrative contracts to local businesses and industries, the U.S. base program has been a vital factor in postwar modernization of the Sidi Slimane-Nouaceur crescent, the country's economic heartland. French urban landlords have obtained, through rentals to over 3,200 American households, incentive and capital for rapid expansion of residential areas in Rabat, Port Lyautey and Casablanca. The base complex is Morocco's third largest employer (over 10,800 locals at present), mitigating the Zone's serious unemployment crisis and augmenting the pool of trained native labor, which is in relatively short supply. Indirect employment through sub-contractors has also been substantial.

Superimposed upon these local effects has been the value of dollar exchange thereby added to French Treasury reserves. American base expenditures have converted Morocco from a heavy drain upon France's dollar resources to an important net earner of this currency. Official U.S. base payments alone have more than covered the French Zone's entire commercial deficit in trade with the United States (even without allowance for imports made sans devises).

Finally, there is the long-range consideration that eventual ownership and usufruct of the American installations will, under the base agreements, pass without charge from our hands to those of France, which will then be free to lease or sell them to any future local government or enterprise. These installations, which are estimated to be worth today $500 million in real (fixed) property value, are adaptable to use by commercial air services, private business (storage, pipeline and repair facilities), the general public (housing) and the State (national defense). Possibly as much as half the original U.S. investment thus will have local economic value.

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In summary, it is reasonable to assert that the U.S. airbase program and economic aid together have played an essential role in Morocco's postwar development: if reimbursable loans and military pay are excepted, capital contributions by the United States have actually exceeded those by the French Government during the past five years. (The use of this criterion for illustrative purposes is not intended to minimize or obscure other French contributions to the local economy.)

Quantitative Analysis

The U.S. military authorities in French Morocco have made available the following record of public expenditures, for which dollar exchange passed directly into the French Government account at the official rate of exchange:

U.S. Air Force (1954 actual):		$ 14,679,842
Post Exchanges	$ 1,273,706	
Supplies	8,683,068	
Local Employees	4,723,068	
U.S. Navy (1954 actual):		1,285,000
Contract exp	647,354	
Local Employees	637,646	
ATLAS & PUSOM (annual average):		22,167,226
Contract exp	5,166,132	
Supplies, leases taxes, etc.	8,523,162	
Local employees	8,477,932	

Normal per annum expenditure: $ 38,132,068 or 13,346,000,000 francs.

This calculation agrees closely with and confirms the official French figures for American Government airbase expenditure, published in the annual Balance of payments, which may therefore be taken as definitive:

Years	Official U.S. Base Payments to French Treasury	
	Dollars	Franc Equivalent
1951 (May-December)	$ 22,810,000	8,000,000,000
1952	45,500,000	15,910,000,000
1953	38,000,000	13,300,000,000
1954	35,833,000	12,540,000,000
Totals	$142,143,000	49,750,000,000
Annual Average	$ 38,131,000	13,400,000,000

In addition, the French Government has been acquiring from American individuals associated with the base program about $13,300,000 per year, in exchange for local currency at the official rate of exchange, which has varied since 1951 from 20 percent to 5 percent below the open market value. This estimate is based upon the recorded total of official exchange on the bases in 1954 by U.S. military personnel, $6,700,000, to which must be added an

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uncertain amount of off-base exchange (banks, hotels, etc.) by some military personnel and by American construction workers. ATLAS has estimated that about $10,000,000 per year of its salary payments to Americans has been exchanged for francs, and it is presumed that perhaps two thirds of this came from official sources. (Constructor personnel, unlike the military, live on the local economy and do not enjoy PX, Government-financed Commissary, or customs privileges. They are regarded as ordinary foreign residents for most purposes of exchange control, and in principle receive in French Morocco salary in the form of franc payments only, obtained by ATLAS officially.)

Supplementing official exchange is the more rewarding and definitely legal practice of franc transfers from Tangier, which however prove too cumbersome and slow for many. For example, U.S. Air Force personnel (who enjoyed the easiest access to the Tangier money market, via fortnightly flights for this particular purpose) exchanged only $3,500,000 there in 1954. The total for the American base community as a whole may be estimated roughly at an annual average of $6,700,000. Although this sum "escaped" the French Treasury, it played a useful role for France in helping to support the uncontrolled franc exchange rate. Since last month moreover, by agreement of the U.S. commanders and at the Protectorate's request, such transfers will be handled solely by the French-controlled Banque d'Etat at Tangier, and thus will be utilizable by the French Government directly for franc support operations there.

To recapitulate, on an average per annum basis since May 1951 there have been the following U.S. dollar expenditures:

U.S. Government (actual)		$38,131,000
Private American (est.)		20,000,000
French Treasury	13,300,000	
Tangier banks	6,700,000	
Total		$58,131,000

Private expenditures, which include the local currency required for support of 7,200 American military dependents and construction workers, organized into 3,200 households, may be attributed to:

Home rentals	$ 5,400,000	
Servants (3,500)	1,200,000	
Public utilities	2,000,000	
Foodstuffs	5,500,000	
Taxes	900,000	
Goods & Services	5,000,000	(Travel, entertainment, insurance, artisanal goods, etc.)
	$20,000,000	

Thus the overall annual total of expenditures associated with the air-base program benefits approximately the following sectors of the local economy:

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19,830 local employees	15,000,000	(7,330 base workers and 3,500 servants)
Industry	22,000,000	
Rents	10,000,000	
Foodstuffs, goods, services, etc.	9,000,000	
Taxes	2,300,000	
		$58,300,000

Collateral Effects

Of course there have been some minor effects of the airbase program viewed as unsatisfactory by the Protectorate. Rentals in Rabat and Port Lyautey have been inflated under the influence of competition from Americans, aggravated by the occasional avarice of landlords. The Protectorate has, however, largely protected low-income groups among the French population by controlling the rents of prewar houses, few of which are inhabited by Americans. (Native housing is not affected at all.) A certain quantity of household goods entering duty-free for use by Americans is later sold without payment of tariff. There is a small illicit traffic in Military Payment Certificates. Extensive PX and Commissary facilities limit local currency disbursements, which otherwise would be much larger. Americans use Moroccan highways but do not pay the gasoline tax (though they do pay a one-time registration charge of about $30).

Yet none of these complaints is more than minor, and the principal economic influences of the U.S. airbase program on the local economy have been wholly salutary. Without them, the economic situation in Morocco unquestionably would be far more grave than it is today.

William N. Stokes
American Vice Consul

CC: Legation Tangier
US 17th Air Force Hq.

Department please pass copies to Paris, Casablanca and Rabat (4) for U.S. military commanders

1487

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FOREIGN SERVICE DESPATCH

FROM : AMLEGATION TANGIER MOROCCO

131
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

September 13, 1955
DATE

REF : CERP Tangier, June 30, 1954. Item D.3

IO-4

15 For Dept. Use Only	ACTION	DEPT.
	A/REP-3	INFO RM/R-2 OCI-6 LR-1 ICA-10 NEA-3 EUR-3 E-3
	REC'D 9/19	OTHER CIA-5 COM-10 TAR-2 TR-3 FRB-2 ARMY-3 NAVY-3

SUBJECT: Transmitting Copies of Documentation Internationale de Tanger. LAB-4 AIR-1 AG-7 IN-7

(2)

There are transmitted herewith 5 copies of Documentation Internationale de Tanger for September 1, 1955 containing several articles of interest on the Moroccan economy. This bi-monthly financial and commercial journal is edited by a Frenchman, M. HUBERT DE BERGAR, who is often critical of the economic policies in the French Protectorate, particularly as they affect exports from the Tangier Zone.

The article on page one entitled "Notre Commerce Extérieur et Interzonal" presents foreign trade statistics by commodity for the first half of 1955 (Leg Des 129, September 12, 1955) and includes a breakdown of principal countries of origin and destination (CERP Item B.5.e) as well as interzonal traffic during that period (CERP Item B.5.d).

The article entitled "La Conjoncture Tangéroise" paints a pessimistic picture of the Tangier economy at midyear. He laments Tangier's tremendous trade deficit (not mentioning that most of the Zone's exports are invisible) but admits that it is slightly improved over the previous year and that exports of Moroccan origin toward the French Zone have increased. He gives much of the credit for increased tourist statistics to the arrival of frightened residents of the troubled French Zone. He states that the unemployment situation in the Zone has not improved and notes that the Algeciras powers have taken no steps to open their doors to Tangier exports. He points out that new construction and real estate transactions are at a minimum.

"Les Exportations Américaines au Maroc" gives a summary of the contents of the most recent United States note to the Protectorate authorities rejecting the French arguments in support of import quotas on textiles and electric wire.

The article entitled "Le Principe de la Liberté Economique au Maroc Evoqué Devant le Sénat Américain" on page five is essentially a summary of the testimony of Mr. ROBERT E. RODES, Moroccan trade lobbyist, before the Senate Finance Committee, in which he contrasts the preponderence of U.S. imports in the free market of the Tangier Zone with the secondary role they have in the French Zone,

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where protective devices favor French products. A similar article was also published recently in the English-language weekly, Tangier Gazette.

For the Diplomatic Agent:

Charles Wm. Thomas
Third Secretary of Legation

Enclosure: 5 copies of Documentation Internationale de Tanger for September 1. 1955.

cc: Rabat
Casablanca
Paris
Madrid

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Department of State

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FROM: Casablanca

TO: Secretary of State

NO: 119, November 26, 1 p.m.

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SENT DEPARTMENT 119, REPEATED INFORMATION TANGIER 33, PARIS 18, RABAT 6

Five representatives American Businessmen's Club Morocco were received 24th by Sultan at Rabat and accorded 35 minute interview. Three of representatives called at CONGEN today and described meeting in detail. Audience arranged by group directly with Sultan's protocol officer. In prepared statement group pledged cooperation in building greater and more prosperous Sherifian Empire. Sultan referred long history US Moroccan relations, friendship Roosevelt and Eisenhower and desirability private US investment help develop Moroccan economy. They state Sultan said US private investments would be accorded fullest protection. Group gained impression Sultan and also son Moulay Hassan who interpreted were making distinct effort indicate receptivity private American business activity Morocco. No mention Sultan's comments local press. Despatch follows.

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10:24 a.m.

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FROM: Casablanca

TO: **Secretary of State**

NO: 133, December 16, 10 a.m.

SENT DEPARTMENT 133, REPEATED INFORMATION PARIS, TANGIER, RABAT UNNUMBERED.

Reference our telegram 119

Delegate American Chamber Commerce Morocco held audience with Sultan fifteenth. Chamber President Simone afterwards reportedly told press Chamber only such organization affiliated US Chamber Commerce and officially recognized by Department State, American CONGEN Morocco and French Residency. Target statement obviously American Businessmens Club.

CONGEN not informed prior to visit. Calling in Simone and will report further.

LAMONT

BB:DT

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FOREIGN SERVICE DESPATCH

FROM : TANGIER

351
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

December 22, 1955
DATE

REF : LEGDES 326, Dec 13, 1955

For Dept. Use Only	ACTION NEA-4	DEPT. INFO RMR-2 A/REP-2 OLI-6 E-4 IO 4 ICA-10 EUR-5 OTHER OCB-5 COM-10 TR 3 FRB-2 XMB-3 AG-8 IN-4 LAB-4
	REC'D 1/4	

USIA-10 OSD-4 Army-4 Navy-3 AIR-3 Paris-1 Madrid-1 London-1 Brussels-1 The Hague-1 Rome-1 Lisbon-1 Algiers-1 Tunis-1 Tripoli-1 Cairo-1 Beirut-1 Damascus-1 Dakar-1 Accra-1 Lagos-1 Rabat-1 Casablanca-1

SUBJECT: THE PRESENT AND FUTURE ECONOMIC PROSPECTS OF MOROCCO

There is enclosed the third of the Legation's current series of reports assessing the several aspects of the current situation in Morocco and projecting them, as far as is feasible, into the future.

This report deals with the economic prospects of the country, and, since by its very nature a report on this subject must be confined largely to existing statistics, its format differs somewhat from the others in the series in that prognostications for the future cannot stray too far from the realities of the present. In other words, we are dealing with facts and figures, rather than with men and ideas. The bulk of this report will, therefore, be found in the part dealing with the present situation with a short section on future possibilities as seen in the light of current conditions.

This particular report represents a joint effort on the part of the Legation and the Consulate General at Casablanca with the latter providing most of the detailed information concerning the current situation in the French Zone and the Legation contributing the descriptions of the Spanish and International Zones, plus the Introduction and analysis of the future. The greater part of the drafting at Tangier was done by Third Secretary Charles W. THOMAS, with assistance from Second Secretary G. Edward CLARK, while at Casablanca Vice Consul John C. MALLON and Commercial Assistant A. SAVILLE did the majority of the factual work with the help of Vice Consul Walter H. DREW.

C. Vaughan Ferguson, Jr.
Chargé d'Affaires ad interim

Enclosure:
as stated

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C. Vaughan Ferguson, Jr.:aef
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THE MOROCCAN ECONOMY

INTRODUCTION

Morocco, as is the case with most underdeveloped countries, has an economy based essentially on subsistence agriculture over which has been superimposed in recent years the beginnings of a modern industrial and commercial economy. This development has been made possible by a vast public works program which has provided the country with an adequate transportation and communications system and hydroelectric power. What there is of modern industry and commerce has been fostered for the most part by European skills and European capital, and one of the consequences of this development has been the rise of an urban proletariat subjected to the additional pressure of a rapidly rising birth rate. This urban proletariat has been the raw material of the political dynamics of Morocco of the last few years and has found its expression in the Istiqlal and the Union Marocaine de Travail.

While economic developments can seldom be separated from political affairs in this modern era, the effect of the latter on the former in Morocco has been tremendous during the past two years. Trouble started with the deposition of Sultan Ben Youssef and an apparent hardening in French determination to hang on to her Protectorate. Moroccan Nationalists then began their arduous and bloody campaign, which was to produce eventually the return of Ben Youssef and the promise of independence. The strongest elements of this campaign included terrorism, strikes and boycotts, striking at the heart of French presence, their very lives and their livelihood. The effectiveness of the campaign grew with increased experience and rising hatred on the part of the Moors, until the Fall of this year when it had succeeded in nearly paralyzing whole segments of the economy of the Zone and in precipitating the flight of capital from the country (see following section).

The economic future of the Sherifian Empire is complicated by the fact that it has been in the past divided economically, as well as politically, into three separate zones, each of which has its unique currency problems, methods of public finance, and patterns of foreign trade, all of which will require considerable readjustment if, as the Nationalists insist, Morocco is to be reunified. The French Zone is overwhelmingly the most important from an economic as well as other points of view, but the impact of economic decisions taken there on the economies of the other two zones cannot be disregarded.

Of cardinal importance is the future of the Moroccan franc. Several Nationalist leaders have stated privately that they intend to detach their currency from the French franc and let it seek its own level. Many persons believe that if this were done, the Moroccan franc would sell at a premium over its metropolitan counterpart, and this possibility, coupled with the fact that the French Zone is a net dollar earner, would put Morocco in a relatively independent economic position vis-a-vis France. Still, the Moroccans may eventually decide that continued financial aid from France necessitates their country's continued attachment to the franc bloc. There is also the important question of whether the Moroccan franc will become the official currency of the Spanish Zone of Morocco, which, at present, has a peseta economy. Similarly, the future of the free monetary area in the Tangier Zone may be at stake in an integrated Moroccan economy.

only through military expenditures & not there vis-à-vis all the dollar zone (Cuban sugar)

Another important consideration bearing on Morocco's economic future is the country's eventual policy regarding outside economic assistance. At present the budgets of both the French and Spanish Zones are heavily subsidized by the respective protecting powers, and some way must be found to maintain this assistance or find it from other quarters. There is also the related problem of private capital investment in Morocco. Moroccan Nationalist leaders are taking a more and more conciliatory tone toward French investments as they come to realize the importance of outside capital in developing their country, and some of them have declared themselves in favor of legislation encouraging and protecting foreign investments in Morocco. Finally, there is the possibility of a request on the part of the Moroccans for technical assistance, loans, or other forms of aid from the United States. This Government may have to decide to what extent such aid should be granted, and, specifically, whether we should provide direct technical assistance to a country which the French consider to be their special domain.

There follows a summary of the economic realities of each of the three zones of Morocco with some conjectures on the changes which the future might bring.

FRENCH ZONE

The new Moroccan Government takes over a French Zone economy which, although giving the appearance of great vigor in the post war years, has a number of weaknesses which must be met squarely during the coming difficult transition period.

The most depressing factor, however it must be admitted, during the past two years has been nationalism itself which did serious harm to the economy of the country as a whole and particularly to the French controlled portions. There are indications now though that the Moors can and are showing themselves able to call off the pressure policies as quickly as they imposed them. Nevertheless their effect over the past two years cannot be overlooked, their scars will not soon be erased and their capacity as a political weapon not soon forgotten.

Terrorism was employed most directly and forcibly in enforcing various boycotts against French controlled products such as cigarettes, sugar, textiles and soft drinks. Shopkeepers who refused to cooperate were murdered or had their shops burned. Individuals caught smoking had their noses cut off or were otherwise disfigured. Women wearing French cloth were treated to indignities. The mass closing of shops, designed to show displeasure over French policies or various political developments, froze the normal business life of large cities for days on end. Arson was also used most effectively, some times against French industries and business enterprises, but most often against colons in agricultural areas. Strikes too served political purposes, especially in the ports where shipping was tied up for weeks. Finally, all Moors abstained from celebrating feasts, weddings, and other lavish occasions. In the face of this campaign, ships began avoiding Moroccan ports, investors shied away, capital moved outward, businesses folded and travel agencies crossed Morocco off their tour lists.

In addition to the residue of terrorist action, the new Government inherits responsibility for an inflationary economy resulting from heavy capital improvements made with public funds and the presence in recent years of considerable quantities of speculative capital. It faces an economy with too much commercial and too little industrial activity, and many of the industrial enterprises that

exist were formed during the post war shortage of all consumer goods when efficiency and cost of production were not given serious consideration by the entrepreneurs. In the face of a sizeable trade deficit, the new Government takes over an economy where private investment is on the decline. Although the mineral extraction industry is good, there is a scarcity of trained Moroccan technicians to run the state-owned mines. Most important of all, the Government takes over a budget which must be subsidized by the French at the rate of one hundred billion francs per year.

How well the Moroccan Government handles these trying problems depends in great part on how willing the Moroccans will be to forget their past grievances and to work closely with the French to solve economic and social problems which they cannot possibly hope to face alone.

Outline of Current Financial Situation

Money Supply
(in billion francs)

	Banks	Postal Checks	Treasury General	National Savings	Currency in Circulation	Total Supply
1950 *	68.6	9.1	6.9	4.6	29.9	119.1
1951 *	93.8	12.0	9.5	4.9	40.8	161.0
1952 *	105.4	13.9	8.5	6.0	45.8	179.6
1953 *	124.4	16.5	10.0	7.3	48.9	207.1
1954 *	132.1	17.4	12.5	8.7	55.5	226.2
1955 **	135.3	15.6	16.4	9.9	63.5	240.7

* at the end of November
** at the end of June

French Morocco's money supply has more than doubled since 1950. During the same period, the country's important agricultural production increased by 18 percent and its equally important mineral production (including that of the Government-owned and operated phosphate mining industry) by 50 percent; retail prices rose by approximately 35 percent, wholesale prices by at least 20 percent for local commodities and 10 percent for imported commodities. Successive decrees increased the very low legal minimum wage (applied, as a rule, only to unskilled Moroccan labor) by approximately 60 percent. Increases in other higher wage sectors were considerably less marked, but Government employees, in particular, were granted substantial increases in living allowances and similar indemnities which added to the several upward revisions of the administrative payroll scale.

The inflation of the money supply, and particularly that of currency in circulation (63,468,000,000 francs by the end of June 1955, compared to 29,926,000,000 francs by the end of December 1950), was brought about principally by the influx of outside funds for public and semi-public expenditure and unproductive flight capital. (*)

(*) In 1954, currency in circulation accounted for 26.3% of French Morocco's money supply (compared to 11.3% in the United States).

Public and semi-public expenditure succeeded in providing the country with a satisfactory infrastructure of roads, ports, and hydro-electric and thermo-electric installations (which are bound to yield tangible dividends in the future) as well as with schools, dispensaries, laboratories and hospitals (which, economically speaking, are "unproductive"). It greatly outweighed private expenditure for productive investments in industry and agriculture. Thus, the money put into circulation to cover the cost of modernization and equipment projects and that of maintaining and operating social and cultural institutions, as well as an overgrown administrative apparatus created an artificial prosperity out of all proportion to the productive resources of the country. It thus created demands which could not be met locally, stimulated imports of consumer goods, boosted the cost of living, and favored the proliferation of purely commercial enterprises which resulted in a dangerous hypertrophy of the distribution system.

Another inflationary factor was the movement of flight capital between France and Morocco. At one time, notably in 1950-51, it had assumed such proportions that it obscured the pattern of normal monetary trends whose relation to price and cost-of-living variations, wage increases, consumer spending, and investments became practically undectable. The movement of flight capital between France and Morocco still continues, though on a much lesser scale than in 1950-51. While in 1954 flight capital was reported to be moving back to France, the direction seems now to be once again reversed, owing to governmental instability in France and fears of social unrest, "Popular Front" politics, and increased taxation (local banking sources declared themselves unable to evaluate the importance of this movement). There is evidence, however, that a certain amount of contraband francs are moving to Tangier. Flight capital is, as a rule, not available for productive investments. It swells the demand deposit accounts of the local banks and occasionally enters the commercial circuit for quick-profit operations. It is significant that 80 percent of all local bank accounts are demand deposit accounts (compared to 59 percent in the United States), despite the fact that, unlike the American public, the Moroccan public is not in the habit of making current payments by check.

Public and Semi-Public Expenditures

The Protectorate's budget for 1954 amounted to approximately 102 billion francs, namely:

Estimated receipts:	Agricultural tax (tertib)	6,000,000,000 francs
	Patents tax and tax on professional profits	8,218,000,000 francs
	Tax on salaries and remunerations	1,450,000,000 francs
	Other direct taxes	266,000,000 francs
	Customs dues	17,750,000,000 francs
	Indirect taxes	10,554,000,000 francs
	Stamp duty and registration fees	4,478,000,000 francs
	Income from public lands	1,674,000,000 francs
	State monopolies and exploitations *	16,732,000,000 francs
	Various and exceptional receipts	4,473,000,000 francs
		71,595,000,000 francs

(*) including income from postal operations (estimated at 4,630,000,000 francs)

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See p. 16 also.

40 million dollars.

→	Modernization and Equipment Fund (France)	13,500,000,000 francs
	Equipment Bonds	2,000,000,000 francs
	Reserve Funds	6,862,000,000 francs
	Special Loans	500,000,000 francs
	Special Purpose Funds, Treasury Loans and Various	8,124,000,000 francs
		30,986,000,000 francs
Grand total of estimated receipts		102,581,000,000 francs
Estimated Expenditures:	Public Debt	8,495,000,000 francs
	Modernization and Equipment	32,074,000,000 francs
	Operational Costs	57,814,000,000 francs
	Various	3,553,000,000 francs
Total of Estimated Expenditures		101,936,000,000 francs

Official sources estimated that, during 1954, public and semi-public expenditure attained a total of at least 175 billion francs. In fact, in addition to the budget expenditures must be taken into account: direct French Government expenditure in Morocco (estimated at approximately 40 billion francs), expenditure for the maintenance and operation of the United States air bases (estimated at more than 10 billion francs), as well as the loan-financed expenditure of the municipalities and the concessionary public utility companies. 100 million dollars,

The disproportion between public and semi-public expenditure and private investments (which, in 1954, amounted to 15,079,000,000 francs or less than 9 percent of the former) is generally considered injurious to the country's economy, the more so as public and semi-public expenditure is to a very considerable extent financed from outside sources. (38 million $) (about 50% French 40% local French

It is difficult to see, however, how public expenditure can be curtailed without affecting the normal rate of social progress. In fact, the Sherifian state will require considerable funds for such basic needs as the creation, maintenance and operation of schools, particularly professional schools for the training of native administrative personnel and skilled labor, as well as for slum clearance (subsidized construction of low-cost housing) and agricultural reforms (maintenance of pilot farms, subsidies to Moroccan farm cooperatives for tractors, implements and fertilizers). It would thus seem that the savings that can be made by reducing expenditure for technical modernization and equipment projects (which are presently sufficiently advanced to meet the requirements of even an expanding production potential) might very well have to be allocated for the creation, maintenance and operation of cultural and social institutions which, economically speaking, are wholly "unproductive" and constitute, moreover, a permanent financial burden. For instance, school constructions completed in 1953 at a total cost of 3,212,000,000 francs entailed, in 1954, additional operational costs amounting to 838,000,000 francs.

Private Investment

During 1954, private investments in French Morocco amounted to 15,079,000,000

francs (compared to 22,596,000,000 francs in 1952 and 19,096,000,000 francs in 1953), including the value of contributions in kind (goodwill, inventories, office installations, real estate). The pattern of investments was the following:

Agriculture	1,096,000,000 francs
Insurance	142,000,000 francs
Commercial	4,554,000,000 francs
Financial	1,351,000,000 francs
Real Estate	1,727,000,000 francs
Industrial	3,720,000,000 francs
Mining	1,213,000,000 francs
Transports	436,000,000 francs
Various	840,000,000 francs
TOTAL	15,079,000,000 francs

Of this total, investments in newly created firms accounted for 3,356,000,000 francs and capital increases of already existing firms for 11,723,000,000 francs. According to official information, 50 percent of the capital thus invested came from France (42%) and French Union countries (8%), 46 percent from French Morocco and only 4 percent from foreign countries.

The close inter-relationship of the French metropolitan and the French Moroccan systems (practically unavoidable as long as the French state and French credit institutions bear the main burden of public and semi-public expenditure in Morocco) has necessitated protective currency regulations and exchange controls which discourage foreign investments. As long as the currency regulations remain effective, the country's urgent need for productive private investments will have necessarily to be supplied mainly from French metropolitan or local sources. While French interests may still be willing to consolidate their existing positions (as evidenced by the fact that capital increases have remained at a relatively satisfactory level), they are now obviously reluctant to engage in new ventures pending the outcome of the coming Franco-Moroccan negotiations and the evolution of the political situation. As to local capitalists (the well-to-do Moroccan Moslem and Jewish "bourgeoisie" of the towns, which is traditionally a community of merchants), they prefer commercial operations to industrial activities and short-term to long-term investments.

The proportion of investments in commercial and speculative financial ventures has indeed been very high since the end of the war. The Protectorate Government's official account of the Four-Year Plan period 1949-1952 stressed the "dangerous hypertrophy of the distribution system in relation to the production potential" and pointed out that, out of 1,894 corporations created during the period 1949-51, 998 declared a purely commercial activity. "To this number," continued the official report, "must be added some thousand limited liability companies and a far from negligible number of commercial corporations improperly included in the category of industrial enterprises." These words are as true today as they were at the time of writing. Small commercial companies devoted to the nebulous purpose of "all commercial and financial operations" continue to proliferate, despite repeated warnings against the ill effects of overcommercialization, while productive private investments in industry and agriculture remain insufficient.

This state of affairs has its origin in the psychology of the general public. Both the European and Moroccan middle and upper-middle classes spend prodigally, though for different psychological reasons (which it is impossible to expound within the limitations of the present summary). If the country's production potential were highly developed, this freehandedness would benefit the country by stimulating manufacturing activities and employment; as it is, the bulk of the money spent leaves the country, while the remainder, in the form of commissions and profit margins, benefits only a small sector of the local economy.

Production

The productive development of the French Zone has quite naturally followed more or less the traditional colonial pattern of emphasis upon the production of raw materials to the detriment of manufactured goods. The speculative nature of the majority of investments and the consequent lack of sound competitive local industries has been noted elsewhere. Recent attempts of the Protectorate Government to provide through development plans a solid basis for sound expansion of the economy have sometimes produced excellent results — notably in such projects as the construction of electric energy facilities, highway and rail transportation, ports and irrigation systems. For example the production of electrical energy, as a result of measures taken by the Protectorate Government, has more than doubled in the past six years with a present capacity of approximately 73,300,000 kilowatt hours per month. However, the lack of long-term private investments in the manufacturing and transforming industries (except mining) is evidenced by the inherent incapacity of these industries to survive open competition and their growing demand for protective tariffs and other kinds of public help. Thus, for instance, Morocco's fairly important fish canning industry required organizational and financial help from the Protectorate to weather the severe crisis of 1952-53, and Government subsidies to bolster certain artificial internal farm prices and to provide the difference between the former and export market prices.

Agriculture

The economy of French Morocco is based to a very large extent upon agricultural production. It is estimated that agriculture provides for the livelihood of almost 85% of the total population and in good crop years accounts for nearly 50% of the country's total export trade value.

There are an estimated 4,600,000 hectares under cultivation in the French Zone. Over four-fifths of this acreage is sown with primary cereals, and 73% of the total land is devoted to the three traditional crops - hard wheat, barley and corn. Modern cultivation methods are applied to only approximately 8% of the cereal acreage. The yield on scientifically farmed land is estimated in the case of cereals to be as much as 30% higher than that obtained by traditional methods. Government subsidies to farmers provide the means for disposing of cereals the price of which is above the world market price, yet less than 25% of the farming population are believed to be recipients of these benefits. The production of bread cereals is usually insufficient for local needs, although barley and other secondary cereals provide surpluses for export in all but the poorest crop years. Viniculture has long benefited through preferential treatment

since each year as much as or more than 40% of Moroccan wine production is entered into France under an allotted quota. "Regular" vineyards cover about 55,000 hectares of land almost all of which are owned by Europeans. This acreage is nearly three times what it was in 1947 producing in the last four years over 1,000,000 hectoliters annually and winegrowers in the near future will most probably be faced with surpluses which must be disposed of outside the Franc Zone. Citrus fruits, fresh vegetables, almonds and aromatic seeds and spices are normally exported each year.

The 1955 harvest appears generally better than average, although not as good as last year. It is expected that a fairly high level of exports will be kept up throughout most of 1956. Cereal crops appear good and tobacco and cotton above average. Vegetable crops varied but were generally good. Citrus fruits were better than last year though not so good as the 1952-53 crop, whereas the July heat adversely affected olive production and locust plagues reduced the almond yield to about 70% of last year. The condition of cattle is believed below normal, though still healthy, due to the lack of good pasturage. The traditional habit of Moroccan peasants of investing savings in sheep results in overstocking and causes a relatively high animal mortality representing losses estimated at from 1 to 2 billion francs per year. The past five years have been a series of average to excellent harvest years. However, despite appreciable efforts made in the field of irrigation and soil conservation the country remains exposed to possible prolonged periods of severe drought. Official agricultural extension facilities and pilot projects for dissemination of scientific farming knowledge have met with definitely limited success among Moroccan farmers.

Cork production represents the Government's major revenue from its forest estates. There are believed to be almost 9,000,000 cork trees supplying reproduction cork, which amounted to 62,220 metric quintals in 1954.

Fishing

The fishing industry represents an important component of the national economy both as a source of national wealth and in the large number of individuals engaged directly and indirectly in this activity. Last year's catch of saltwater fish amounted to 93,022 metric tons, which was well below the average yield of 124,984 metric tons for the previous two years. On the basis of incomplete statistics this year's production promises to be no better or possibly even worse. Contributing causes are a series of strikes which have often tied up the fleet largely for political reasons and adverse water conditions. The Protectorate Government's Scientific Ocean Fishing Institute has for a number of years counselled the fishing fleets, both industrial and non-industrial, on scientific fishing methods as a result of tests and experiments and has been responsible for zoning regulations in given areas during certain seasons in order to aid in re-populating coastal waters. The Protectorate Government has embarked upon a long-range fleet development plan. Merchant Marine schools have been established for training purposes and a Bureau of Fleet Modernization entrusted with the granting of medium and long-term Government loans for modernization purposes to boat owners hard-pressed financially.

Mining

The greatest strength in the productive capacity of the French Zone, both

present and potential, lies in its extractive industries, and above all in phosphate mining. Mineral production accounts for almost 35% of the country's total export trade. The phosphate industry, a Government monopoly based on sound financing, expert technical knowledge, and modern equipment, is the most important internal industrial factor in the economy. The phosphate industry has successfully met the decline in world prices for raw materials, which resulted chiefly from the cessation of hostilities in Korea, although not without a period of readjustment during which production declined approximately 17% in 1952 and 1953. Production in 1954 and for the first eight months of 1955 (including August 1955) during which the operations at Kourighba were temporarily crippled by an uprising of native labor) rose approximately 25% above the 1953 level to surpass the previous peak in 1951. However, several other important mining industries of French Morocco which are dependent on the state of world market prices and must meet high transportation costs have fared badly. Production figures for the first seven months of 1955 compared with the peak year of 1952 reveal that iron production is about 53% below 1952, cobalt approximately 19%, manganese about 9%. On the other hand, in the case of lead and zinc, which are presently exported exclusively to the metropole and are consequently not dependent on world market prices, production has risen slightly. The production of anthracite has declined approximately 25% in the last two years, coal as a fuel being replaced by other sources of power, notably electricity. Although the phosphate mines have provided the basis for a local super-and hyper-phosphate industry, which is sound and competitive, the lack of coking coal in the country has prevented the growth of the local mineral transforming industry, which, at present, consists of one lead smelter and the oil refinery at Petitjean, no more than a fraction of the area's needs.

Manufacturing

During the war and post war years of the 1940's, the acute demand in Morocco for consumer goods stimulated the growth of manufacturing industries which, as noted above, were almost invariably financed by purely speculative capital and which, as a consequence of high productive costs, were unable to meet the subsequent adjustment period of declining world market prices. It is these same unsound industries - notably the textile, metallurgical, vegetable oil, fish canning, and tannery groups - which, having found the various existing forms of subsidies from metropolitan France ineffective in most cases, are vigorously seeking for a revision of the Treaty of Algeciras to permit the imposition of protective tariffs on finished goods and reduced taxes on necessary imports of raw materials. The textile and insulating wire quotas instituted in March of 1955 represent, of course, a step in this direction. The shoe industry on the other hand probably presents the sole exception to the above generalizations, as an enterprise in the consumer goods field, founded as it is on a sound financial basis and technical knowledge which have proved competitive in the face of changed conditions. It is still too early to determine whether the recently reorganized fish canning industry with elimination of a number of marginal producers can still prove itself competitive in world markets.

To the basic ills of the industrial sector has been added in the past two years the politically motivated boycott against European products and abstention from traditional festivities on the part of the Arab population. Although it is

difficult to gauge with accuracy the impact of these moves, losses of various degrees of severity are known to have been suffered by the soft drink bottling, tobacco, sugar milling, textile and flour milling industries.

Construction

Construction work normally provides employment for approximately 100,000 persons each year and, as such, represents the largest industry in the French Zone. The value of construction permits issued has jumped from a monthly average of 375,000,000 francs in 1947 to 2,804,000,000 francs in 1952. The extensive influence of speculation in this industry is almost too obvious for mention. Since 1952 the average monthly value and area of new buildings represented by permits has decreased. The rate of decrease was pronounced in the last quarter of 1954, and, although the first quarter of 1955 was marked by revival in the number of permits issued, it is believed that recent months have registered a new low since 1952. The production growth of the local cement industry is, of course, largely reflected in the enormous increase in construction. The local cement industry has developed rapidly from a monthly average production rate of 18,238 tons in 1947 to a present average of approximately 55,000 tons per month. This growth has almost completely removed the necessity for importing cement, formerly an important import.

Outline of Foreign Trade Situation

Trade Movement, 1951-55
(1,000 francs)

	Imports	Exports	Trade Deficit
1951	159,680,489	88,159,145	71,521,344
1952	180,533,716	95,117,775	85,415,941
1953	171,129,024	94,309,384	76,819,640
1954	167,932,541	99,896,381	68,036,160
1955*	125,371,799	79,751,040	45,620,759

* nine months

420 million dols — 250 mil. dols — 170 mil dols

French Morocco's trade deficit reached an all-time high in 1952, /year which was marked by the termination of the Protectorate's First Four-Year Equipment and Modernization Plan. The Equipment and Modernisation Plan had succeeded in providing the country with a satisfactory infrastructure of roads, ports, and hydro-electric and thermo-electric installations, prepared the way for long-term irrigation projects, and stimulated the development and expansion of such basically sound industries as the mining and the building materials industries. Conceived and realized in a period of world-wide shortages and, consequently, exceptionally favorable marketing conditions, the Plan had also stimulated the growth of many small manufacturing and transforming industries which, handicapped by excessive overhead and production costs, insufficient production ranges and low quality standards, could not hope to survive the return to normal competitive trade and marketing conditions (hence: decline or failure of a good number of textile mills, canning plants, oil mills and tanneries). The Plan failed to develop a sound consumer goods and foodstuffs industry

capable of supplying the local market and, at the same time, providing a sizeable surplus for export at competitive prices. This failure was to a certain extent ascribable to the fact that, in French Morocco, the merchants greatly outnumber the technicians and the opportunists the long-term planners, and that Government planning and expenditure lacked the support of private initiative and civic action.

The year 1952 was also marked by the end of world-wide shortages and by the return to normal competitive trade and marketing conditions. This evolution revealed the weaknesses of French Morocco's economic development during the boom period of the post war years, weaknesses which continue to determine the country's foreign trade situation:

(1) the overcommercialization of the economy and the excessive number of unproductive intermediaries;

(2) the relative inefficiency of many small manufacturing and transforming industries whose development dates from the war and post war period of short supply and production at any cost;

(3) the lack of flexibility in the production and price policies of these industries, many of which were created by quick-profit speculators with little or no technical knowledge;

(4) the tradition of high profits, speculation, and refusal to do business under legitimate risks, which is partly responsible for the inflationary aspects of the economy;

(5) the artificial prosperity created by public and semi-public expenditure out of all proportion to the country's production potential;

(6) the unwillingness or inability of local producers (industrial, as well as agricultural) to face international competition on world markets and their excessive reliance on the French market and on French Government help (preferential treatment, support of farm prices).

The primary weakness of French Morocco's economy lies in the fact that in the absence of industries capable of supplying the local market with a satisfactory range of consumer goods and, at the same time, of providing a certain surplus for export at competitive prices, the country must import consumer goods in ever-increasing quantities and rely, for its export trade, almost exclusively on raw materials and raw products of its soil and sub-soil.

The gradual decline in imports recorded since 1952 affected exclusively capital equipment and semi-manufactures, a direct consequence of the reduction in public expenditure for modernization and equipment projects following the termination of the First Four Year Plan. On the other hand, imports of consumer goods, including foodstuffs, continued at an increasingly high level.

EVOLUTION OF IMPORTS 1952-1955

Capital Equipment	1952	35,531,000,000 francs
	1953	29,195,000,000 francs
	1954	28,815,000,000 francs
	1955 *	19,816,000,000 francs
Raw Materials and Semi-Manufactures	1952	45,450,000,000 francs
	1953	35,452,000,000 francs
	1954	34,831,000,000 francs
	1955 *	27,138,000,000 francs
Consumer Goods	1952	54,948,000,000 francs
	1953	57,942,000,000 francs
	1954	59,248,000,000 francs
	1955 *	41,058,000,000 francs
Foodstuffs	1952	33,850,000,000 francs
	1953	36,818,000,000 francs
	1954	34,282,000,000 francs
	1955 *	29,326,000,000 francs

* nine months

During the same period, the increase in exports was almost entirely the reflection of the exceptionally favorable 1953 harvest which provided the country with very important stocks of cereals (barley, soft wheat and hard wheat).

EVOLUTION OF EXPORTS 1952-1955

Raw Materials and Semi-Manufactures	1952	52,596,000,000 francs
	1953	49,394,000,000 francs
	1954	50,685,000,000 francs
	1955 *	39,660,000,000 francs
Foodstuffs	1952	37,762,000,000 francs
	1953	39,200,000,000 francs
	1954	43,468,000,000 francs
	1955 *	35,590,000,000 francs

* nine months

According to the foreign trade results available for the current calendar year (nine months), it seems that the final results will not be very different from those of 1954 (in fact, imports during the first nine months of 1955 attained 74.7 percent and exports 79.7 percent of the results recorded for the year 1954), though one may expect a slight increase in the value of exports, owing mainly to the continued progress of foodstuff exports (which, during the first nine months of 1955, already attained almost 82 percent of the total recorded for the year 1954).

With this reservation in mind, one may consider the following table, showing the 1954 trade movement according to commodity groups, as reflecting the current foreign trade situation in a fairly accurate manner:

FOREIGN TRADE MOVEMENT BY COMMODITY GROUPS, 1954
(in million francs)

	Imports	Exports
Power and Fuel	10,757	1,435
Raw Materials and Semi-Manufactures	34,831	50,685
Capital Equipment	28,815	644
Consumer Goods other than Food	59,248	3,664
Foodstuffs	34,282	43,468
TOTALS	167,933	99,896

Assuming the continuance of close financial, economic and political ties with France, it may be expected that the decline in imports of raw materials and semi-manufactures (which fell from 45.4 billion francs in 1952 to 34.8 billion francs in 1954) and of capital equipment (which fell from 35.5 billion francs in 1952 to 28.8 billion francs in 1954) may level off, since there remains need for Government subsidized low-cost housing, irrigation work and other construction projects (such as certain "fight against unemployment" road construction projects), as well as for a continuance of agricultural reform projects including the extension of the pilot farm system and the increased mechanization of tribal or regional farm cooperatives. Moreover, long-term projects for the improvement of communications in the extreme south have been under consideration for some time (in connection with the planned development of the iron ore deposits in the Tindouf and Djebel Ougnat areas), whose realization, however, is likely to exceed available Franco-Moroccan resources, because of the important capital outlay involved. Imports of consumer goods, including foodstuffs, seem to have reached their ceiling, although the lifting of the ban on public and private celebrations imposed on the Moroccan population by the political parties during the period of "National mourning" is likely to stimulate sales of textiles, household articles and radios among the native population. Imports of fuel, particularly gasoline, may increase, since the number of motor vehicles in operation in French Morocco has been growing steadily in spite of political unrest and the gradual restoration of security throughout the country will certainly contribute to overcome the reluctance for extensive inland travel which had lately become apparent in both the European and the Moroccan sectors of the population.

Morocco's export trade possibilities are limited to the exportation of raw materials and semi-manufactures (including notably phosphates, manganese, iron, lead, zinc and cobalt concentrates, raw and processed cork, raw and processed hides and skins, raw wool, palmetto fiber, esparto grass, and canary seed) and foodstuffs (cereals, citrus fruit, pulse crops, truck crops, oil seeds, canned fish, refined sugar, and wines). Both categories of exports seem to have attained an optimum level in 1954-55. Exports of phosphates (which, with a total value of 19.9 billion francs in 1954, constitute the country's principal single source of income) are not expected to increase appreciably above the 20-billion franc mark, while the world market for manganese, iron ore and cobalt concentrates has

been shrinking since 1952, resulting for French Morocco in a static or even declining production. As to raw materials and semi-manufactures of agricultural origin, experience has shown that these exports are subject to relatively sharp annual fluctuations, with gains and losses more or less compensating for each other. Exports of foodstuffs have been stimulated during the last two years by exceptionally good harvests which provided the country notably with an important surplus of cereals, whose disposal in the world market encountered certain difficulties and required Government subsidies (particularly in the case of the important barley and soft wheat stocks) to provide the difference between the artificially established internal prices and the export market prices. Exports of canned sardines and wines attained a satisfactory level only thanks to the preferential treatment these commodities have so far been granted in France. In the world market, sales of canned sardines have made very little progress, while Morocco's relatively important wine production is practically unsaleable outside France (which, it should not be forgotten, has an increasingly difficult wine and alcohol problem of her own). As it is, the evolution of French Morocco's very important foodstuff exports will depend, not only on future harvests, but also on the continuance of Government subsidies and preferential treatment practices.

The following tables show French Morocco's foreign trade situation by currency areas:

IMPORTS BY CURRENCY GROUPS, 1952-1955
(in million francs)

	1952	1953	1954	1955 *
Franc Zone	115,654	103,874	98,795	66,510
Dollar Zone	26,217	25,089	23,693	18,962
Sterling Zone	6,613	7,372	7,117	7,096
E.P.U. **	25,004	24,511	27,580	23,004
All others	7,006	10,283	10,748	9,800
TOTALS	180,534	171,129	167,933	125,372

EXPORTS BY CURRENCY GROUPS, 1952-1955
(in million francs)

	1952	1953	1954	1955 *
Franc Zone	53,712	56,376	55,004	44,639
Dollar Zone	4,382	4,744	4,403	3,429
Sterling Zone	9,690	9,852	9,548	6,724
E.P.U. **	21,960	17,048	25,655	19,082
All others	5,374	6,279	5,286	5,877
TOTALS	95,118	94,299	99,896	79,751

* nine months
** European Payments Union, except countries in Franc and Sterling Zones

The above tables show clearly the extent to which French Morocco's foreign trade is reliant on metropolitan France and the French Union countries. An average of 56% of all imports originate in the Franc Zone which, in its turn, absorbs, on the average, 58% of French Morocco's exports.

The predominance of French commodities in the Moroccan market contributes to an appreciable extent to making the Protectorate an "expensive country" (France being herself one of the most expensive countries); on the other hand, the "preferential treatment" granted certain Moroccan commodities in metropolitan France (canned sardines, wines, citrus fruit, manganese, cobalt) contribute strongly to helping the Protectorate solve marketing problems which may otherwise remain unsolved.

One may be tempted to ascribe the appreciable decline in imports from France and the French Union countries recorded since 1952 to political unrest. However, this is not so since political events made themselves felt in this field only very recently. The boycott of European products, and not only French products as often assumed, at first affected notably local manufacturers (the first to feel its effects were the local soft-drink bottlers, the local sugar refiners, and the State monopoly of tobacco manufacture). It began only late in 1954 to make itself felt to the wholesale and retail trade to any appreciable extent. The boycott had probably less effect on internal commerce than the self-imposed or forcefully imposed abstentions from public and private celebrations (usually occasions for prodigal spending) as a manifestation of "National mourning."

The reasons for the decline recorded for the global value of imports from the Franc Zone must be sought, on the one hand, in the reduction of imports of semi-manufactures and capital equipment, following the termination of Government financed equipment projects, and, on the other, in the growing competition in the field of consumer goods by imports from the European Payments Union and, in particular, from West Germany, as a result of the gradual progress in the liberation of trade exchanges between the members of the E.P.U. So far, port work stoppages at Casablanca have not been sufficiently long to cause serious harm to the country's economic life; but the fact that the port of Casablanca alone handles approximately 80 percent of all incoming and 75 percent of all outgoing cargo traffic gives organized labor a stranglehold on the Protectorate's trade movement, which is the more dangerous as the country relies for its daily needs to a very great extent on imported commodities.

Labor

During 1955, the Union Marocain du Travail (UMT) has made very significant progress in establishing itself as the spokesman and also the effective leader of indigenous Moroccan labor. By now it appears that the UMT is so strong that it can no longer be effectively challenged by other unions, by the Protectorate authorities, or perhaps even by the developing Moroccan political groupings or by the indigenous Government. In a very real sense, the UMT has become a major domestic political power in its own right, even exercising on certain occasions temporary police functions in disturbed urban areas. The UMT has so far coordinated its activities very closely with those of the Istiqlal. It has recently indicated that it recognizes that prolonged strikes and slow-downs may work against

Morocco's interests, but it must be expected that it will not hesitate to call strikes when they appear politically advantageous.

The labor situation itself continues to be characterized by the reservation of almost all managerial and skilled industrial roles to the European population, leaving the indigenous population primarily unmechanized agricultural work and various unskilled and semi-skilled work. The indigenous Moroccan population does not possess sufficient know-how to operate alone the economy at anywhere near its present level, and the Moroccans are not yet learning, or do not yet have sufficient opportunities to learn, at a rate which would permit them effectively to take over the roles played by the Europeans at an early date. Although the Sultan and Moroccan Nationalist leaders have emphasized the need for technical training facilities for the Moroccan population, there is so far no indication of any concrete plans to meet the objective. In all probability, it will be difficult to interest France in paying to train Moroccans to displace or compete with French labor in the area, and it is difficult to imagine the emerging Moroccan Government making great progress in this direction without outside financial and technical assistance. Istiqlal spokesmen have publicly mentioned the desirability of obtaining help from UNESCO, and presumably UNTAA in particular, and as a first step have advocated early Moroccan membership in UNESCO.

CONCLUSIONS

The central fact of the economy of the French Zone of Morocco is that it requires approximately 100 billion francs (or very roughly 300 million dollars) a year in outside assistance. This amount, which has been supplied by France in the past, will be required indefinitely unless substantial additional outside assistance is provided to permit the development of increased productive facilities, probably primarily in agriculture and in mineral extraction but also in domestic consumer goods, sufficient to bridge the gap between exports and imports while also keeping pace with an annual net population increase of 2 percent per year. If such additional capital were provided, it might be possible for the economy of the French Zone to be viable within a generation. Some such outside assistance might possibly be obtained from other governments seeking concessions, among which the Federal German Republic might be a candidate. Such outside assistance might also be obtained from private investment sources in the United States and Europe provided that investors obtained persuasive assurances that their investments would be protected, provided that Moroccan taxes were kept attractively low, and provided that exchange controls were liberalized to permit the ready repatriation of capital and earnings.

It is also possible if the existing level of outside support is not maintained that the economy of the French Zone of Morocco will readjust itself to a lower level based more heavily on subsistence agriculture.

SPANISH ZONE

The economy of the Spanish Zone of Morocco is so different from that of the French Zone that it is hard to think of the two as being part of the same country. In contrast to the rich agricultural land, natural resources, and industrial and commercial complexities of the French Zone, the Spanish Zone presents the picture

of a fairly primitive economy. In addition, its economy is based on the peseta and is oriented toward Spain. The Rif Mountains dominate the Zone, leaving little arable land of good quality and making almost impossible the development of an adequate transportation system. The economy is a relatively undeveloped one based on subsistance agriculture, and the limited investments for development purposes are essentially from public funds. The only important private investments are the Lukus farm and canneries in the Larache area and the mineral extraction industry, particularly the iron mines near Melilla. The two most important cities serving the Zone, the ports of Ceuta and Melilla, are in fact Spanish territories and not part of the Protectorate. The economy of Spanish Morocco is fairly static, and the standard of living and general level of economic development would not be drastically affected by possible eventual political changes in the Sherifian Empire. These changes might result in the complete unification of the Empire, or simply the suppression of zonal frontiers for trade purposes, or perhaps the use of a common currency. In any case, it would appear that the political future will require a more complete economic integration of the three zones of Morocco. The Spanish do not have a large economic stake in their Zone, and any intransigency about relinquishing control of it would be for other reasons.

Finance and Spanish Subsidies

The Spanish peseta circulates freely and is the official currency of the Zone. The annual budget includes an ordinary budget which covers current expenditures and an extraordinary budget which covers long term capital improvements. About 40% of the Zone's earnings came from customs which have been fixed by treaty for all of Morocco. A five year plan for economic development was inaugurated in 1952 with the authorization of a bond issue of 260 million pesetas to be marketed with the Zone's banks as needed. These funds will be exhausted in 1955 and there is talk of a new loan to finance additional public works over the next four years. A special loan has financed the Moulouya River power and irrigation project. The 4% interest and the amortization of these various bond issues is a fixed charge on the ordinary budget of the Zone, which is, in turn, heavily subsidized by the Spanish Government. This subsidy takes the form of direct grants or advances (they are described as non-interest bearing loans) which cover well over 50% of the ordinary expenditures of the Maghzen budget. In 1954, out of a total expenditure of 470,243,000 pesetas, the Spanish Government supplied 250,000,000. With budget estimates for 1955 running as high as 600 million pesetas ($15,000,000), the Spanish Government may be forced to advance as much as 380 million pesetas ($9,500,000) to meet the current year's deficit.

But this direct Spanish subsidy to the budget is not the only form of assistance on the part of Spain to the economy of the Zone. Mr. Rafael Alvarez Claro, the Delegate for Economy in Spanish Morocco, has estimated that Spain spends about 900 million pesetas per year ($22,500,000) in the Zone in support of its armed forces and in paying for certain Government personnel, educational facilities, pensions, etc.., which are not reflected in the Maghzen budget (the budget pays for Khalifian Forces only). Whereas expenditures on the armed forces, which traditionally are maintained in large numbers in the Zone, are hardly to be compared to direct capital improvements, they are nonetheless an indirect stimulus to the economy as a whole. Considering the size of these Spanish expenditures and subsidies, compared with the limited Maghzen budget, any withdrawal

of Spanish support of the economy would be a severe blow not only to the development program but to the ordinary functions of government as well.

General Economy and Trade Patterns

The economy of the Spanish Zone is basically subsistance agriculture with very little capital investment in industrial enterprises. Of 47 new corporations or limited companies formed in 1954, only 4 were for productive purposes, with most of the balance being commercial establishments. Only the Lukus organization with its farms, fishing fleet and canneries and the Compania Espanola Minas del Rif represent large scale capital investments similar to those found in the French Zone. There are a few small scale light industrial enterprises, which include food processing, forest and lumber industries, chemicals, tiles, matches and cement. Expanded investment in the Zone would depend on the continuation of the long term development programs in road building and hydroelectric power now being financed by Spanish aid, whether the future currency of the Zone be the peseta or the Moroccan franc. If political changes brought about the use of the latter currency in the Spanish Zone, it might lead to an expansion of investments in the French Zone northward to the neighboring zone. It should perhaps be noted in this connection that the corporation law of the Spanish Zone requires that 25% of the capital stock of any newly formed corporation be offered to Moroccan Nationals for a prescribed period of time in order to insure that they have the chance to participate in their country's private enterprise.

Although the Spanish Zone of Morocco uses the peseta as its currency, for foreign trade purposes its economy is entirely separate from that of the Metropole, and it keeps its own foreign currency accounts. Licenses are required for both imports and exports, and foreign exchange is carefully controlled. Most of the Zone's imports are consumer goods, and Spain is the principal supplier. In 1954, of the total imports of 915.8 million pesetas, 598.2 million came from Spain. Spanish products are often exempted from export duties in Spain in order to make them competitive price-wise in Morocco. In addition, it is understood that the licensing policies of the Protectorate government tend to favor Spanish goods. About 55% by value of the Zone's exports to Spain consist of minerals from Spanish-owned mines. This is a trade pattern which cannot be ignored in any political settlement affecting the status of the Spanish Zone. On the other hand, about 42% by value of the Zone's imports from Spain consist of farinaceous products, fats and oils, and textiles, all of which are highly competitive products which could be supplied from other sources.

The Zone has made great improvement in its balance of trade position in recent years. In 1951, its 808.4 million pesetas worth of imports were matched by only 300.5 pesetas in exports; but the 1954 totals showed 915.8 millions in imports as against 622.2 millions in exports for a deficit of only 293.6 million pesetas.

Trade between the Spanish and French Zones of Morocco is controlled as strictly as between foreign countries and is done on the basis of an inter-zonal trade agreement signed each year. Because of political tension between the two zones, no agreement was signed in the Spring of 1954, but the agreement of January 14, 1955 provided for an exchange of goods between the zones amounting to a

maximum of 325 million Moroccan francs. Unlike previous agreements, it did not fix a schedule of goods which could be exchanged but rather left that problem to the desires of the market. Unfortunately, no figures are yet available on the 1955 inter-zonal trade to indicate just what items are desired and are marketable in each zone. These figures, when available, may give an indication of the future trend of inter-zonal trade, for no matter what form the future political settlement of the country may take, it seems likely that a Moroccan-controlled government in Rabat will insist on freer trade between the three zones.

Ceuta and Melilla

Although the ports of Ceuta and Melilla are Spanish territories, they play an important role in the Spanish Zone economy, as they serve as the principal ports of entry for their respective Moroccan hinterlands. With plans well underway to make both ports free zones, their importance will probably continue no matter what the political disposition of the Protectorate may be. With their harbor facilities, fishing fleets, canneries, and light industries, these two cities will certainly continue to exert considerable Spanish economic influence in northern Morocco and make it difficult for Tangier to become an important Mediterranean port.

Spanish Zone policy in recent years has been deliberately designed to make foreign trade pass through Ceuta or Melilla or one of the ports of the Zone in preference to Tangier. The reasons behind this were to eliminate unnecessary middlemen and brokers, to build up the Zone's ports, and to prevent the loss of foreign currency in Tangier. This policy has been effective and successful. According to the Spanish Delegate for Economy, direct exports through ports other than Tangier has resulted in a 100% increase in the Zone's holdings of foreign currencies. Likewise, imports of foreign goods to the Spanish Zone through Tangier were represented by 3,118 licenses in 1952 but only 1,917 licenses in 1954. During this period, traffic through Ceuta and the Moroccan ports increased considerably.

CONCLUSIONS

The economy of the Spanish Zone of Morocco is so undeveloped that the basic economic life of the people would not be greatly affected by future political changes. An attempt at a closer integration of the economies of the three zones may lead to a shift in trade patterns. Since the high cost economies of France and the French Zone may find it difficult to compete with Spain in supplying consumer goods to the Spanish Zone, much will depend on the currency which may be eventually used in the Zone and/or on the economic policy that a Moroccan-controlled government in Rabat is able to impose on the Zone.

Of cardinal importance is the enormous subsidy afforded by Spain to the Maghzen budget. This assistance must continue from some source if the Zone is to have the government services and the public works development which are a prerequisite to the building of a viable economy.

TANGIER INTERNATIONAL ZONE

Tangier's unique juridical status has led to a rather special economy as well.

Cut off for fiscal as well as other purposes from the rest of the country, the International Zone relies mainly on customs duties as a source of revenue for government operations. Sufficient funds are raised thereby to permit a minimum of taxation, and government policy has kept the regulation of business to a minimum. The Zone's economy is dominated by the fact that it enjoys a free currency exchange market, which has led to the development of Tangier as a relatively important financial center. This in turn has made for considerable transit traffic through the port. Its free currency, simple incorporation laws, and lack of income tax and business regulations have made it the corporate seat of many foreign firms and the residence of many private persons living on pensions or other independent incomes from overseas remittances. Tangier enjoyed a business boom caused by the investment of flight capital from Europe during the Korean war, but Tangier's economy weakened as confidence in Europe's was regained. The construction industry and the commercial activity of the city has remained quiet since the Korean crisis ended, and the gold deposits in the Entrepot Fictif have steadily diminished since that time. As a means of survival, tourism is currently being stimulated by the business leaders of the Zone.

A political settlement which envisages a greater integration of the three zones of the Sherifian Empire may hold some advantages for the Tangier Zone as a port of entry and as a commercial and industrial center, but the abolition of its free money market would destroy it as an important financial center.

Banking and the Free Money Market

Although the Moroccan franc is the official currency of the Tangier International Zone, the economy of the Zone has not been such as to make it desirable to protect and control the franc. Consequently, Tangier still enjoys a free money market where the law of supply and demand fixes the value of the world's currencies in terms of each other. In a world where blocked currencies is one of the dominant features of international trade and finance, Tangier has profited from its free money market by becoming an important financial center. Tangier's many banks handle the ordinary variety of banking functions for the Zone, but, in addition, they do an active business in financing foreign trade by loaning one currency which is secured by another. The banking business is aided and encouraged by the absence of any banking laws and regulations and by the practice of strict banking secrecy. This secrecy and lack of government control permits illegal transactions to be handled by Tangier banks and makes possible the large scale movement of contraband currencies. Large quantities of contraband pesetas are known to pass through Tangier, usually to the dollar detriment of the Spanish economy. But on the other hand, the official bank of Spain sometimes buys and sells pesetas on the Tangier market in order to stabilize its free market price. Similarly, large quantities of Moroccan francs are smuggled into the Zone, usually for the purpose of financing sans devise imports from the dollar area. Certain small banks with facilities in Casablanca, Tangier, Switzerland, and Paris handle these transactions without a physical transfer of currency merely by falsifying their books.

One consideration affecting the Tangier banks is whether, as a result of eventual political negotiations, the Moroccan franc will continue to be tied to

the French franc. If the Moroccan franc is allowed to seek its own level and Tangier remains a free money market, it will affect the franc deposits in Tangier banks, which are understood to be especially large at the moment, and the resulting currency speculation might influence the value of other monies as well.

It is difficult to see what interest the Powers might have in maintaining Tangier as a free money market. The city serves as a sort of proving ground for the value of currencies but sometimes proves embarrassing for the weaker ones. If, however, for strategic or other reasons the Powers should decide to retain the special juridical status of the Zone, they might also want to retain the free currency exchange, as it is at present the mainstay of the Zone's economy.

Other Economic Considerations

Tangier is unique in that it is a municipality which has recourse to customs duties as a fiscal device. Customs accounts for about one-half the revenue of the Tangier budget, the balance being taken in the form of excise taxes, business licenses, state monopolies, and fees from concessionaires. The integration of the Tangier economy into the rest of Morocco might result in the loss of the Zone's access to its customs revenue. This would mean that taxes would have to be raised, which would, in turn, deprive the Zone of one of its greatest attractions for European residents and businessmen.

One of the consequences of the fact that the Moroccan franc has been tied to the French franc has been the erection of a customs barrier between Tangier and the French Zone which prevents products of non-Moroccan origin to enter that Zone via Tangier. This customs barrier has seriously hampered the development of commerce and to a certain extent industry in Tangier because of the inaccessibility of the French Zone market. Business circles in Tangier have long agitated for an outlet for Tangier exports in the French Zone. If the free currency market were abolished, the reason for the customs barrier would disappear and Tangier could become a port of entry for the French Zone, subject, of course, to the disposition of the Spanish Zone economy. It is doubtful, however, whether the business thus generated would offset the losses incurred as a result of a controlled currency and higher taxes. It is conceivable that a Moroccan-controlled government in Rabat might make an effort to permit some movement of goods to the French Zone through Tangier without abolishing the free money market; the French had an interest in favoring the port of Casablanca at the expense of Tangier which the Moroccans themselves would not have.

The pattern of Tangier's foreign trade is, of course, influenced by the fact that it has all currencies available to it. It is interesting to note that under these conditions, the United States is the biggest supplier of Tangier imports. In addition, Tangier is one of the largest overseas buyers of American cigarettes, most of which, however, are smuggled into other Mediterranean countries. Tangier's total trade figures for 1954 show 9.6 billion francs in imports and only 1 billion in exports, for a trade deficit of around 8.6 billion francs. This deficit is not too significant, however, when it is considered that most of Tangier's exports are invisible and take the form of tourist trade, bank earnings on foreign trade, and foreign remittances, all of which would be influenced by any major alterations in the juridical or economic basis of the Zone.

The importance of Tangier as a port for the Spanish Zone has already been discussed under comments on Ceuta in the "Spanish Zone" section of this report. The trend mentioned therein would be subject to change if a strong Moroccan Government decided to favor the port of Tangier.

CONCLUSIONS

Any change in the free currency market in Tangier would greatly alter the whole Tangier economy and change its trade pattern. A political settlement which retains for Tangier its currency market might find it necessary also to work out arrangements whereby Tangier can carry out a fair share of trade with the other zones of the country in order to ensure the International Zone of a more viable economy.

THE FUTURE

In summary, the economic future of Morocco appears to present nearly as many problems as does the political future, and, as pointed out earlier, the two are inexorably linked. Furthermore, as in the case of political affairs, one sometimes wonders if the Moroccan people themselves completely comprehend the magnitude of the tasks ahead of them. Indeed in economic fields, officers of the Legation have found during conversations with important Nationalist leaders that these men have only the vaguest ideas of economic policies and programs which they wish to be developed in their country. So far, there appears to have been nearly a total absence of economic planning, and when confronted with specific questions, the Moroccan leaders reveal a fuzziness and lack of experience which is somewhat disturbing.

On the other hand they have within their immediate power, the ability to solve certain problems. The cessation of strikes and some boycotts have already unclogged ports, such as the one at Casablanca. And the slackening of terrorism has already produced announcements from some tourist agencies that Morocco will be put back into travel schedules. Nevertheless, a vast number of other long-range basic economic matters must some day be dealt with, including in review the following:

1. Economic Unification. If political unification of the three Zones is to be achieved, economic unification must ultimately be accomplished as well. In fact, the need for eventual economic unification, including such factors as the elimination of restrictive zonal barriers, is actually a compelling reason for speeding political integration. There may be some justification for preserving a special status for Tangier for a time, and the Spanish may drag their heels on relinquishing their Zone, but the economic life of the Sherifian Empire will always remain an anachronism until complete unity is achieved.

2. Equalization of Privileges. The new Moroccan Government, if successful in abrogating the Treaty of Fez and establishing once again the independence of Morocco, will most decidedly wish to correct some of the injustices of the past, whereby the nationals of occupying powers enjoyed greater economic privileges than did the citizens of the country itself. Freedom from taxes, protective quotas, production incentive awards and other attractions for foreigners will have

to be adjusted in a free country so as no longer to do injustice to the indigenous population. At the same time, the Government will have to find ways of protecting investments already made and retaining a somewhat favorable climate if it is to retain a proportion of foreign settlers, already declared by the Sultan as essential for the continued economic well being of the country. Finally, a whole new set of treaties may have to be negotiated with all the countries which have had an interest in Morocco, and with which Morocco will wish to have commercial relations, preserving, for example, some of the best features of the Act of Algeciras and other agreements.

3. Monetary Policy. As discussed earlier, a decision will soon have to be made regarding the official currency of the land, the means of its support and stabilization, its linking or relationship with the franc, the peseta and the dollar and other fundamental monetary questions. Here again the peculiar status of Tangier and the intentions of Spain have considerable bearing on the decisions.

4. Economic and Technical Assistance. See Legation's despatch no. 342, December 20, 1955, "General Conclusions on the Current Situation in Morocco and Recommendations Regarding United States Policy," page 3.

5. Increase of Production. Morocco will some day have to adjust its whole pattern of production in order to provide more of the basic needs of the country in manufactured goods. To date, emphasis has been placed on manufacturing and processing of the type carried on by colons and foreign settlers, best designed to bring them sure profits regardless of the basic needs of the country. This must be altered to provide more consumer goods needed within the country and eliminate a proportion of those imported from former protecting powers. Agriculture should also be increased in those areas where the population exist on a bare subsistance level. Forestration is essential, particularly in the Spanish Zone, and more adequate geological surveys should be carried out, also in the Spanish Zone, to tap larger portions of the country's mineral resources.

6. Labor and Management. Up until now considered primarily as a political force, labor must give increasing thought to improving the lot of the individual worker. Essential to this process is enlightened labor education. By the same token, if Moroccans are to take over many of the business enterprises of the country, their officials must also be educated in the responsibilities of management. There is a great and useful reservoir of manpower in Morocco, but so far it has not been put to its most efficient use. The bidonville areas of the big cities stand as shocking testimony to an unbalanced and ineffective utilization of the country's manpower. Here again the line between the economic and political grows thin, for as the economic plight of the unemployed increases, the danger of Communism and subversion creeps in.

7. International Trade. Whether the provisions of the Act of Algeciras are retained or new Treaties of Commerce and Navigation negotiated, the character of international trade is bound to change. Although it is assumed that France and possibly Spain may retain some privileges, it is reasonable to expect that many countries will be hoping to increase trade with Morocco. Because of its location on the world's waterways and airways, the country may also wish to expand its role as a trans-shipment point. With the elimination of zonal boundaries,

Tangier may pick up again in this sphere and be able to emphasize legitimate rather than contraband goods, while new free ports are being considered for Ceuta and Melilla, although these areas may remain under Spanish control for a long time to come.

8. World Strategy and Economics. Although the role of Morocco in the world strategic picture has been covered in other sections of this series of reports, it cannot be ignored in the economic picture. Eventual membership in NATO or another regional defense arrangement would help solidify commercial ties. The presence of bases will always provide some stimulus to the internal economy. The intensification or slackening of the Cold War or the beginning of a shooting war would all produce profound effects within the Sherifian Empire. The present concentration of the Soviet Bloc on the Middle East could incite repercussions in the Maghreb. And finally, tactics of guerrilla warfare and terrorism, used once so effectively against foreign elements, could be employed by rival groups within the country to achieve selfish and irresponsible personal objectives at the cost of the economic health of Morocco as a whole.

FOR THE UNITED STATES. It is important to American strategic and commercial interests to see Morocco economically, as well as politically, stable. The United States should be willing to offer considerable assistance to achieve this status, for a sound Morocco can prove to be in the future, as it has in the past, a staunch ally, a reliable business associate, and a good friend.

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FOREIGN SERVICE DESPATCH

FROM : TANGIER

NEA MESSAGE CENTER
1956 JAN 10 AM 11 41

360
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

December 28, 1955
DATE

REF : LEGDES 314, Dec 8, 1955 and 323, Dec 9, 1955

LONDON-1 MADRID-1 PARIS-1

For Dept. Use Only	ACTION	DEPT.
	NEA-4	INFO RMR-2 AIREP-2 OLI-6 EUR-5 IO-4
	REC'D 1-5	OTHER CIA-7 LAB-4 USIA-4

SUBJECT: VIEWS OF TANGIER ISTIQLAL LEADER ON THE FUTURE OF THE INTERNATIONAL ZONE OF MOROCCO; LABOR IN TANGIER

The British Chargé d'Affaires in Tangier, Mr. SCOTT, has shown me a copy of a report he is sending the Foreign Office in London summarizing the views of the local Istiqlal leader Dr. Abdelatif BENJELLOUN on the future of the International Zone of Morocco as seen through Nationalist eyes.

The views of Dr. Benjelloun did not, according to Mr. Scott, differ markedly from those previously expressed to this office by the more senior Istiqlal leaders, EL FASSI and BALAFREJ, but they were somewhat more precise and showed that he had done a bit more thinking about the matter. It was clear apparently that the Istiqlal leadership has still drawn up no schedule for the reincorporation of the Tangier area into the Moroccan body politic and that they attach the last priority to it. It was equally clear, however, that this does not mean that the Moroccans will not eventually insist on control of the Zone, including the disappearance of the type of International Government it now enjoys. Dr. Benjelloun appears to envisage a Moroccan Governor with considerable freedom of action, a free port, the continuance of the Tangier free money market and the abolition of the Committee of Control. No action, however, would be even considered prior to the conclusion of the forthcoming Moroccan negotiations with France.

The most immediate problem confronting the International Zone in Dr. Benjelloun's opinion is the need for the orderly and accelerated organization of labor into trade unions. He blandly informed Mr. Scott that there would be no connection between these unions and the Istiqlal Party and that their doors would be open to all, including French and Spanish workers. Dr. Benjelloun's tongue must have been practically piercing his cheek when he made this remark since he personally and single-handed had called off the recent port strike when asked by the Party Secretary-General, Mr. Balafrej, to do so. In any event, most observers agree that there is a pressing need for some sort of organization to Tangier's active and uneasy but undisciplined and totally unorganized labor. Mr. Scott who has been turning this problem over in his mind since assuming charge of the British Consulate General told me that in a separate despatch he had recommended that a British Trade(s) Union official speaking either French, Spanish or Arabic be sent to Tangier to help the Moroccans in their organizational problems and to keep them from any turns to the Left. He thinks that if a project of this type were successful in the International Zone, this official or another like him might then be welcome in the French Zone.

Getting back to Dr. Benjelloun, he told Mr. Scott that he foresaw no major

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disturbances in and around Tangier unless there was provocation on the part of the Zone authorities, particularly the police. He said that the police, often completely unintentionally, needlessly provoke Moroccan opinion and that this could easily lead to troubles in the Zone given the present state of the Moroccan mind. Possibly with this in mind, the traditional parades of the Spanish population through the streets of the old city on Christmas Eve were not held this year since the police reported to the Administration their fear that this would provoke incidents.

C. Vaughan Ferguson Jr.

C. Vaughan Ferguson, Jr.
Chargé d'Affaires ad interim

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FOREIGN SERVICE DESPATCH

FROM : American Embassy, Paris

1320
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON

January 10, 1956
DATE

REF :

For Dept. Use Only	ACTION / REC'D	INFO DEPT.	INFO OTHER
	ACTION NEA-4	DEPT. RM/R-2 H/RLB-2 OLI-6 EUR-5 SOA-4 NEA-10	OTHER CIA-5 COM-8 TR-3 ARMY-3 NAVY-3 AIR-3
	REC'D 1-16		

J/MSA-1 IO-4 R-1

SUBJECT: Mr. Stanton's Proposals for International Economic Commission for North Africa

Mr. Frank STANTON, in charge of the Paris branch of Craig Stanton Company which has interests in Morocco, called at the Embassy on January 4 to voice his concern regarding the future role of the United States in Morocco and throughout North Africa as a whole. Mr. Stanton was afraid that the United States might act in such a way as to push French interests out of North Africa, thereby endangering stability in the area and working, in the long run, against the best interests of both the United States and France. Mr. Stanton had just returned from a trip to Casablanca, his second in two months, where he reportedly talked to many Frenchmen both inside the Government and out.

Mr. Stanton thought that Moroccan independence was virtually an accomplished fact, and that the Istiqlal Party would insist on maintaining control over Moroccan foreign relations and on taking over responsibility for its own defense. At the same time he thought that France would underwrite the Moroccan budget (which he estimated at fifty million dollars) at least for 1956. It would be extremely inadvisable for the United States, eager to benefit by Morocco's newly-won independence, to implement unilaterally an economic aid program in Morocco, Mr. Stanton thought. For the United States to claim full credit for a ten billion dollar Point-4 program while France was, without any publicity, contributing 50 million dollars to the annual Moroccan budget would, of course, be greatly resented by the French. Such a gesture by the United States towards Morocco would doubtless backfire when the Moroccans learned that the United States was unwilling to supplant France as the dominant foreign influence. Should the United States really wish to supplant France in Morocco, Mr. Stanton continued, the United States should be prepared to take over the financial responsibilities for all of North Africa. This, he felt, the United States would never do even if the United States believed such a course to be politically expedient.

Despite the fact that France would probably continue to underwrite the Moroccan national economy (as well as that of the other North African countries) for a good many years to come, Mr. Stanton was convinced that additional outside help would be necessary to develop the economy of this area. Presumably the United States would contribute the largest portion of this supplementary aid. However, Mr. Stanton thought it would be desirable if all financial aid for Morocco were administered through an international commission composed of a number of countries, possibly the members of NATO. It would be illogical to have this aid administered

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by the signatories of the Act of Algeciras, Mr. Stanton said, since Russia would then be a member of this commission. France would presumably sit on this commission and might contribute as much as 50% of the funds to be utilized in Morocco. The Moroccan Government would also have a representative on the committee who might be given the power of veto in decisions regarding the use of the funds of the commission. The commission itself would act in a completely advisory manner.

Mr. Stanton felt strongly that France's position in North Africa, particularly at this time, should be strengthened rather than weakened by outside powers. Should France be permitted to withdraw completely, Mr. Stanton foresaw a situation such as has developed in Egypt, where the British have been permitted to withdraw completely and Colonel NASSER has been able to play off the East against the West almost at will. Should the United States and France collaborate alone on the economic development of Morocco, Mr. Stanton felt that the United States might well be blamed by France should anything go wrong with the consortium. It was on the premise of "safety in numbers" that Mr. Stanton recommended that the field of collaboration be extended to include a number of other countries.

Mr. Stanton was convinced the Arab countries of the Near East are anxious to lend sizable funds to North Africa but that the Sultan of Morocco would much prefer to have Western aid rather than that of Egypt. If Morocco were to receive aid from the NATO countries through a commission in which Morocco not only participated but even had the power of veto, the Middle East would be unable to charge Morocco with being a prey to the imperialism of the West. Furthermore, neither the Arab States nor the East could point to one Western country as taking any unnatural interest in North Africa, since such an interest would actually be divided equally among the members of the international commission.

Mr. Stanton said he had frequently argued and fought with French members of the Protectorate Government over business interests in Morocco. Little did he realize at that time that he would one day come to defend French interests. But such was his position today. The French, he said, had made some bad mistakes in their policies in North Africa. However, developments within the last few months had had a salutary effect on the nationalists and those Frenchmen in positions of authority today had become realists. French influence in Syria and Lebanon continued to be considerable, he said, despite the circumstances attending the expulsion of the French from those countries in 1945. Mr. Stanton believed that French policy in Algeria would necessarily evolve within the next few months and that North Africans as a whole would realize that they must continue to have help from the French Government. Since the United States could not afford to underwrite financial obligations for all of North Africa, the United States would do well to continue to support France's economic and cultural interests in that area.

Although Mr. Stanton was not very specific in how the arrangement might be

worked out, he suggested that the United States might first approach the French Government indicating that if the French Government should so request, the United States might consider favorably a project for establishing an international economic commission such as has been outlined above.

Mr. Stanton concluded by pointing out that the French Government was very weak, as was indicated by the recent elections, and could only be further weakened if it were ousted from North Africa. If the United States were to fill the vacuum created in North Africa unilaterally, the French press would certainly accuse the United States of treachery. The United States would soon find it was unable both financially and technically to support all of North Africa and at such time would be a target of criticism from France, from the African countries, and from the Arab countries of the Middle East. Therefore, Mr. Stanton concluded, the only solution would be a sort of economic fund contributed by France, the United States and other countries to be administered by an international commission in which France had the dominant role, the Moroccan Government held the power of veto, and the member countries acted as advisers.

Robert P. Joyce
Counselor of Embassy

cc: Tangier, Rabat, Casablanca,
Algiers, Tunis.

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FOREIGN SERVICE DESPATCH

FROM : AMLEGATION TANGIER MOROCCO

530
DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

March 15, 1956
DATE

REF : CERP Tangier, June 30, 1954. Item C-2.

Send 1 copy to each post listed on page 1 2 of desp (17)

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	REC'D: 3/22	OTHER: CIA-5, USIA-10, TR-3, FRB-2, IAR-2 NMB-3, AG-8 LAB-4, HEW-5, FCC-1, Army-4 Navy-3, AIR-3

SUBJECT: Tangier Economic Review, 1955.

SUMMARY: The Tangier economy in 1955 did not vary much from the previous year. Trade was up, due to a swollen population and an increase in tourism, but new construction was down and real estate prices were falling. Tangier's limited industrial production remained about the same, but there was a strong movement at the end of the year to unionize labor and to formulate social legislation for its protection. Increased customs revenues and carefully controlled spending put the budget again on a sound basis, but lack of confidence in the future of the Zone caused a flight of capital from Tangier's many banks and kept the whole business and banking community in a state of pessimistic uncertainty.

* * * * * * * * * * * *

GENERAL SITUATION

The economic conditions attending the acute business depression which followed the post-war boom in Tangier and which reached its levelling off point in 1954 were not altered to any considerable extent during 1955. Certain areas of the economy, however, showed a slight improvement over the previous year. Retail stores, hotels, restaurants, and cafes all profited from an increased movement of persons, rising population, and expanded tourist trade. Spanish trade policies continued to discourage routing of shipments through the port of Tangier, but imports and exports of the Zone showed an increase over the previous year and the resultant customs revenue enhanced the solvency of the Zone's fiscal position.

Tangier's economy, however, can only be realistically considered against the backdrop of events occuring outside the Zone, for by its very nature this international corner of Morocco is destined to be influenced by external political and economic considerations. During the Korean crisis, the fear of a general war precipitated a flow of gold and speculative capital into Tangier which gave it a dizzy but evanescent prosperity. The return of peace and the recovery of the European economy, however, gradually reduced Tangier to its proper proportions, and it returned to a norm which was at best a stagnant existence, living off overseas remittances, tourism, a modest trade and industry, and particularly its banking and currency exchange transactions.

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In 1955 the Tangier economy again became subject to the pressure of external events, this time taking place for the most part in the French Zone of Morocco, where political terrorism, economic boycotts, and armed rebellion have punctuated the struggle for political supremacy conducted by the Nationalist leaders. The political scene in the French Protectorate has not only affected directly to some extent the economy of Tangier but also has cast a shadow of uncertainty across the whole future of the international regime and the special status it enjoys.

The immediate impact of nationalist activities was felt in several ways. A boycott was enforced against soft drinks and cigarettes, Moroccan-owned stores were closed on Fridays, and there were occasional European shop closings prompted by several mass demonstrations and minor instances of violence, all of which served as a depressant on the economy. On the other hand, large numbers of persons including both Moroccans and Europeans moved to Tangier to escape the violence in the French Zone, and this resulted in a stimulous to the mercantile community, apartment owners, hotels, and restaurants. Tourists destined for the French Zone remained in Tangier because of unsettled conditions further south. And, finally, the rise of an effective Moroccan labor organization in the French Zone made inevitable the spread of unionism to Tangier. At the end of the year unions were being organized at a rapid rate, and several minor strikes had taken place. This, in turn, gave impetus to the Tangier Administration's program of social legislation, including a bill on minimum wages and a bill authorizing and legalizing the formation of labor unions.

The long range consequences of the political struggle in the French Zone during 1955 may be considerably greater than the immediate ones, and a discussion of them must necessarily surpass the limits of the year under review. Dramatic developments, including the June murder of the French owner of a liberal Casablance newspaper by alleged counter-terrorists, the subsequent rioting in Casablanca and elsewhere in July, and, finally, the abdication of Sultan Moulay Ben Arafa, all paved the way for the restoration of the legitimate Sultan, Mohamed Ben Youssef, and the formation of a government dominated by the Nationalist parties. From that time on it was evident that Morocco would soon have its independence and would negotiate new accords to govern its relations with the former Protecting authorities. It is significant to note that one of the foundations of the new Morocco, as proclaimed by the Nationalist leaders, is the territorial unification of the Sherifian Empire. Taken literally, this means the suppression of the three separate zones of administration, a development which might entail dire consequences for the economy of Tangier; for in keeping with its special juridical status, the Zone has its unique currency problems, methods of public finance, and patterns of foreign trade, all of which might require considerable readjustment if, as the Nationalists insist, Morocco is to be reunified.

Of cardinal importance is the future of the Tangier free money market. It is Tangier's freedom of exchange which has made it a financial center of some importance and which, directly or indirectly, makes a considerable contribution to the livelihood of the Zone. If the integration of the Tangier Zone with the

rest of Morocco means the end of the free money market and the imposition of monetary controls, the basic economy of the Zone will have to make a radical adjustment. Conversely, if the Moroccan franc were freed from the French franc and were permitted, in turn, to be freely convertible with other currencies, throughout Morocco, the banking business handled by Tangier would probably shift to Casablanca, a development which would be equally detrimental to the future of the Zone.

On the other hand, the prospect of Tangier's integration with the economy of the French Zone has a brighter side with regard to its commercial and industrial future; for the prohibitions of imports into the French Zone via Tangier would then be lifted, the railhead would begin to function, and activity in the port of Tangier would consequently increase. These changes plus the possibility of an outlet for the products of Tangier's manufacturing and processing establishments would all serve as a needed stimulus to the economy of the Zone.

But integration might also mean a complete change in Tangier's pattern of public finance. Since the Zone now has recourse to customs duties as a fiscal device, it is able to defray half of its public expenditures from this source of revenue alone, and this, in turn, has permitted a minimum of taxation on business and property, a condition which has made the Zone so attractive to businessmen and foreign residents. Integration might mean that the Zone would lose its customs revenues and be forced to seek its income through new and higher taxes, unless, like Ceuta, the municipal budget were subsidized by the central government.

It has been these imponderables which have added additional insecurity to an already pessimistic business and banking community and which have been translated into concrete economic terms by a flight of capital from the Zone. It is against this background of uncertainty and imminent change that the following details on the Tangier economy should be studied and assessed for the future.

PUBLIC ADMINISTRATION AND FINANCE

As in 1954, the Zone's government continued to be the object of considerable criticism during 1955. To the usual charges of overstaffing, unprofessional planning, and extravagant spending on the part of the Administration, there were added several complaints about specific projects and developments.

The failure of the Committee of Control to enact the Entrepôt Réel (bonded warehouse) statute for Tangier as presented by the Assembly in late 1954 remained unforgiven, but even greater concern was shown for the continuing acute water shortage. The summer of 1955 again saw the tight rationing of Tangier's dwindling water supply, as the water level at the Charf el Akab dropped to almost four meters below sea level (table 20).(Statistical tables cited in parentheses are listed in the Appendix attached to this report.) Negotiations with the Spanish Zone authorities concerning the dam on the

frontier river, which,it is hoped, will solve Tangier's water problem, became deadlocked over the question of who would ultimately own the facitilities after the final amortization of the investment, and the press cited this as another example of the vulnerability of Tangier's welfare when faced with the superior national interest of one of its Control Powers. Even as the winter's rains resumed, Tangier's water supply was shut off four evenings a week for the rest of the year, and no relief was in sight.

The Administration also suffered criticism from some quarters for the comprehensive program of social legislation which it presented to the Legislative Assembly in late 1955. Some thought the minimum wage proposed was too high; others thought it was unnecessary. The draft law on the labor contract was considered too complex for an undeveloped economy; and the proposal to deal with migrant labor by issuing a carte de travail to Tangier residents only was considered by some to be a bureaucratic folly which, considering the persons involved and the situation confronted, was doomed to failure. In addition, there was concern in conservative budgetary circles about financing unemployment relief from the Zone's Reserve Fund.

Pressure on the Administration eased, however, as the budget picture improved. The budget, which had been in precarious balance in 1954, showed a sizeable surplus in 1955, thanks to careful economizing and increased customs revenues. Although the cash position was never good because of port expenditures, the 1955 surplus of about 192 million Moroccan francs brought the Fonds de Réserve up to over 300 million at the end of the year, With hope of continuing high customs revenues, the 1956 budget, which is still being debated by the Legislative Assembly, calls for greater expenditures than the past year and anticipates a surplus of 50 million francs. The only dark cloud on the fiscal horizon is that in the case of a sudden liquidation of the International Administration, there are insufficient funds in the Caisse de Prévoyance and the Fonds de Réserve, taken together, to pay the separation bonuses which all retiring employees are entitled to by law.

BANKING

The Tangier free money market continued to serve as an indicator of the real value of currencies (table 8). The peseta enjoyed a fairly steady year in 1955 and showed a marked strengthening during the summer months due probably to the influence of tourism. However, its range of fluctuation was slightly higher than the previous year. The franc, too, had a lower average rate vis-à-vis the dollar and a greater range of fluctuation in 1955 than in 1954. It showed a marked weakening in September-October, coincident with a similar fluctuation on the world's stock markets, and weakened again at the beginning of 1956 as a Socialist oriented government was formed in Paris.

Ten tons of gold were withdrawn from Tangier's Entrepôt Fictif during 1955 leaving a balance of only thirty tons, as Switzerland regained its special position as a safehaven for Europe's gold (table 9). The price of gold in Tangier fell to $34.95 during the fourth quarter of 1955.

As Tangier's importance as a gold and money market declined, bankers found additional cause for concern in the latter part of the year, as rapid political developments raised the possibility that Tangier might lose its special juridical status. Talk of freeing the Moroccan franc from its French counterpart and of the possible abolition of the free money market in Tangier caused financial circles in the city to react nervously to each new pronouncement, for the whole economy of the Zone is postulated on the freedom of currency exchange. For example, both leases and mortgages on real property are quoted in various currencies, including the dollar, and triangular trade transactions are often financed on the basis of loans secured by a currency other than that specified in the sales contract. Likewise, Tangier's many open-end trust funds, which have a world wide clientele, are based on freedom of exchange for purchasing securities and paying dividends. It should perhaps be stated, however, in mitigation of this fear of a blocked currency that many local banks maintain a large part of their funds in Swiss and New York banks, and many of the securities taken out in the name of local trust funds are physically held by their correspondents in many parts of the world.

One of the reactions to the political developments in Morocco and the doubts they have raised about the economic future of the country has been a movement of flight capital to more secure havens. One movement has been in the form of contraband Moroccan francs which were smuggled into Tangier from the French Zone so they could be converted, if necessary, into a hard currency. A more important movement, however, was the transfer of dollar accounts out of Tangier, presumably to other hard currency areas. Unfortunately, no figures are available on the quantity of either of these movements.

Another development, which did not occur in 1955 but rather in January 1956, should perhaps be mentioned in that it affects somewhat the currency exchange situation. At that time the French Ministry of Finance prohibited any further remittances of francs to France from Tangier by postal money order. This regulation was aimed at stopping any further loss of foreign exchange resulting from the practice of several Tangier banks of accepting dollar checks from clients in Europe and sending them francs at the Tangier free rate by postal money order.

In 1955, as in the past, the International Administration exercised no regulatory control of any kind over Tangier banks, and their operations were determined solely by the judgment and integrity of their management.

COMMERCE AND INDUSTRY

Commerce:

Tangier business activity, which became somewhat dormant in 1954 after the heady post war years, showed a slight increase in 1955, stimulated by the arrival of refugies from the French Zone and an excelerated tourist trade.

Unfortunately there are no figures in the Zone giving an accurate measure of commercial activity, but retail sales appeared to be up, and the hotel and

restaurant trades showed improvement in 1955. Merchants continued, however, to complain about high rents and gave this as an excuse to offer resistence to the Administration's proposed social legislation. A suggestion of improved business conditions is found in the slightly increased number of registrations of new corporations and the tremendous jump in capitalization increases (table 13), although it must be admitted that most of these corporations have nothing to do with Tangier. Encouragement can also be found in the reduced number of bankruptcies (table 16) and protested unpaid bills (table 17).

Certain long range indicators showed pessimism, however. It will be noted that the number of real estate transactions was up (table 12), and this should be read in the light of the fact that real estate values have declined by as much as an estimated 30%. It should also be pointed out that the mortgage situation worsened during 1955. In addition, there was a large drop in the value of new construction as compared with the previous year.

It might also be worth noting that smuggling was rumored to be on the decline during 1955. Contraband destined for France was reported to be discouraged by the strict surveillance of the arms traffic in the Mediterranean. Smuggling into Spain encountered two discouraging elements: first, liberalized import restrictions in Spain were said to have legally satisfied some of the demand for certain items; and second, the previous penalty of fining convicted smugglers was changed to a stiff prison sentence. Smuggling into Tangier reportedly continues unabated, however, with the resultant loss of customs revenue to the Zone. An interesting twist to this traffic is that merchandise marked for Tangier in transit is often reportedly smuggled into the Zone and sold in violation of exclusive agency agreements and at a price lower than the legitimate dealer can afford to accept.

Industry:

Tangier's limited industrial establishment continued to suffer in 1955 from lack of outlets in foreign markets, as the Zone has no bilateral trade agreements with the outside world. Production found its principal outlet, therefore, in the French Zone. The Administration gave what encouragement it could by granting temporary duty-free importation privileges to certain items destined for local processing and reexport, but this measure had little effect on production, with the possible exception of the jute processing industry. Industry was aided however, by a reduction in electrical power rates early in 1955, and electricity consumption showed an increase over the previous year (table 18).

As the product of Tangier's cement factory could not meet the standards of French Zone users in 1955, its export was shifted to external markets. The cotton textile factory was inactive a good part of the year, and the canning factory operated only during the Tuna fishing season. The jute cloth factory was in operation throughout the year and exported considerable quantities of burlap both to the French Zone and to external markets. The local brewery, which was taken over by a Casablanca firm, managed thereby to find a market in the French Zone. The cork factory was improved and enlarged and its output

remained high, as did the production of perfume. The nylon clothing industry increased its output during 1955 and exported more than $100,000 worth of goods to French Morocco. The industry was aided at the end of the year by having another one of its previously proscribed items declared of "Moroccan origin" by the French Consulate General, thus permitting its entry into the French Zone. The local fishing fleet continued to supply the Tangier and, to some extent, the Tetuan markets with fresh fish, and exported large quantities of frozen swordfish and shark (marajo) to Italy.

Tangier International Fair:

The second Tangier International Fair was held from June 25 to July 10 with moderate success. Although smaller than the previous year's fair, it showed signs of being able to sustain itself on a continuing basis. Products exhibited consisted for the most part of imported consumer goods although some of Tangier's limited industrial output was also on display. Only French Morocco exhibited on an official government basis, but the local Italian Chamber of Commerce exhibited various Italian products in its own name. A variety of American merchandise was exhibited by individual Tangier distributors. The fair was handicapped by the lack of local production to attract foreign buyers, but some European manufacturers financed sizeable displays. The third Tangier International Fair has been set for June 30 to July 15, 1956.

TOURISM

During 1955 tourism assumed a larger role as a money earner for Tangier. Profiting from its natural advantages, its climate, its scenic bay, its Medina, its beaches, its good hotels and smart shops, its accessability, and its international character, the Administration as well as private organizations worked hard and successfully at attracting tourists to the Zone.

A plan to sponsor a Grande Semaine de Tanger, which was meant to be a week of sporting events and special tourist attractions, did not materialize because of lack of cooperation from Tangier merchants, but some of the events scheduled for that week did take place. The Administration lent a hand by providing ten million francs to encourage and support activities designed to attract tourists. In addition to the usual bull fights and soccer games, which attract large numbers of visitors from the Spanish Zone and southern Spain, organized events included the Mediterranean Pigeon Shooting Championship, a horse show, an automobile race, the annual air rally, a yachting regatta, motorcycle race, and tennis championship. The French language daily newspaper, Dépêche Marocaine, published 20,000 copies of a special edition promoting Tangier, which were sent throughout the world.

These efforts were not without results. European travel agencies began putting Tangier on their list of tours, and 15 tourist cruise ships called at Tangier during the year. The Polynesian Club of Paris again sent large numbers of French vacationers on a low cost camping excursion to Tangier; and as a result of the Zone's efforts to attract official gathering, the first

UNESCO conference of film and television experts was held in Tangier in October.

Even granted the increased movement of persons resulting from political terrorism in the French Zone, statistics on entries and exits of non-residents, on number of hotel registrations, and on cars handled by the ferries indicate a net increase in tourism in 1955. For real progress in this field, however, the press still insisted that a Casino was a "must" for the Zone.

MANPOWER, SOCIAL PROBLEMS AND LABOR

It is difficult to obtain any accurate idea of the movement of persons and total population of the Zone at any given time. There is no census, and population figures therefore tend to be only rough estimates (tables 1 and 2). Entries and exits are not always an accurate indication of movement either, as the poorer Moors often enter the Zone by donkey trail and are not recorded by the frontier police.

Speaking in very general terms, however, certain definite trends have been discerned during 1955. The Jewish population of the Zone is believed to have diminished as part of the general trend of jewish emigration from Morocco. The European population, particularly the Spanish, has likewise decreased as a result no doubt of Tangier's continuing unemployment problem coupled with uncertainty over the political future, although they were replaced, in part, by new arrivals from the French Zone. The Moslem population, on the other hand, is believed to have increased considerably during the year, explained principally by the influx of Moors seeking escape from political violence in the French Zone and also in part by the arrival at the end of the year of poor Moroccans from the Spanish Zone hoping to find employment in the Zone's expanded public works program. As an indication of the unreliability of statistics on this subject, however, it should be pointed out that this estimated net increase in population is at variance with the arrival and departure figures (table 26), which indicate a net decrease.

This movement and increase of population has stimulated trade somewhat and probably accounts in part for the increase in the Zone's imports over the previous year. The price level in the Zone, however, remained about the same as in 1954 (table 5). The arrivals from the French Zone filled some of the many vacant apartments in Tangier, but the poorer elements added to the already acute housing shortage for the low income groups, making the Medina and the Bidonvilles more crowded than ever. Fortunately, during the summer the new low-cost Moroccan housing development on the Rabat Road was opened to the public and at the end of the year an appropriation was made to provide it with electricity. In addition to the housing, a new emergency clinic with modern equipment was inaugurated by the International Administration.

But the principal developments during 1955 affecting the whole social and economic structure of the Zone were the Legislative proposals of the Administration goverving wages and working conditions on the one hand and the rise of labor unions on the other.

The creation of the Union Marocaine du Travail (UMT) as an effective labor organization under the aegis of the Istiqlal party in the French Zone of Morocco was bound to have repercussions in the other Zones. The successful strike of stevedors in the Port of Tangier in November provided the additional impetus which started a flury of union activity in Tangier. In December 1955 twelve unions were formed, and the active organizing was carried on well into 1956 until some 44 unions were created. A handful of these were actually Spanish unions, autonomous in structure but loosely affiliated with the Spanish National Syndicate; the others, however, were affiliated with the UMT. Several minor strikes at the end of 1955 and in early 1956 resulted in higher wages for the striking employees, and this, in turn, stimulated a general rise in wages in many sectors of the economy.

The Administration had foreseen this development and had been preparing a series of bills to be presented to the Legislative Assembly on various social problems. A labor code dealing with working hours and conditions and the labor contract was drawn up, as was a wage law proposing a minimum of 34 pesetas per day. Neither of these proposals had yet been passed into law as of early 1956, but the Legislative Assembly did vote several large credits for emergency public works projects to absorb some of the Zone's unemployed, which were estimated at over 9,000 by the end of the year. To counter the problem of Moroccan immigration from the Spanish Zone to compete with the local unemployed for this work, the Administration proposed a bill requiring each worker to carry a labor permit (carte de travail) which would be issued by the Labor Office only on proof of long residence in the Zone. This bill is still being debated in the Assembly.

In summary, 1955 has seen considerable activity in the labor field, the consequences of which can only be properly evaluated at a later date. Certain wage increases have already been granted, however, and it would appear that labor will not only enjoy a greater share of Tangier's wealth in the future but will also have an effective channel for expressing its grievances.

FOREIGN TRADE

Keeping in mind that Tangier is a port of entry for two Zones and a port of exit for all three, it will be understood that its foreign trade totals are not an adequate description of a complex situation. It is interesting to note, however, that the value of both imports and exports (table 21) showed an increase in 1955 over the previous year. Imports of commodities followed the usual pattern, with textiles, cars, watches, petroleum products, and flour leading the list, and any significant changes from the previous year were often reflected in concommitant shifts in interzonal trade. Vegetable fiber, cork, gold, jute and hemp textiles, cement, and fish were the principal Tangier exports in 1955. Exports of birdseed and sweet almonds were down considerably, probably because they were routed through Spanish controlled ports, but other items showed a general increase, especially cement and frozen fish, the latter going mostly to Italy.

A breakdown of trade by countries of origin and destination indicate that the United States is still the principal supplier of Tangier imports, with France, Spain, Britain and Germany following in that order. The United States lost its position as the number one recipient of Tangier exports, probably explained by the drop in bird seed exports handled by Tangier. Due to increased purchases of vegetal fiber and cork, the Netherlands and Germany became the leading importers of Tangier products in 1955. With an import-export ratio of almost 10 to 1, Tangier's trade deficit for the year was over 23 million dollars. This deficit is not too significant, however, when it is considered that most of Tangier's exports are invisible and take the form of tourist trade, bank earnings on foreign trade and monetary exchange, foreign remittances and other similar earnings.

There were no exports from Tangier to Soviet Bloc countries during 1955, but imports from Bloc countries and those associated with them for strategic trade purposes showed an increase of one third over the previous year. Most of this increase represented miscellaneous manufactured items from Hong Kong and green tea from China.

Interzonal trade with the French Zone increased both with respect to imports and exports during 1955, and increased exports were sufficient to reduce the trade deficit by over a third. Imports from the Spanish Zone were likewise up in 1955, but there was a significant drop in exports to that Zone, due possibly to the Spanish licensing policy which favors the port of Ceuta. As a result, 1954's positive trade balance with the Spanish Zone was reduced to a net deficit in 1955.

No estimate is available on the value of transit trade passing through the port of Tangier during 1955, but the Customs figure for transit tonnage (table 22) is down as compared with the previous year.

TRANSPORTATION AND COMMUNICATIONS

Transportation:

Sea: The Zone budget for 1955 contained an appropriation of 205 million francs for the improvement of the Tangier harbor installations, and work at the port progressed considerably during the year. A special pier for visiting yachts was completed in July, and a giant crane weighing 700 tons was assembled and put into operation in October. The crane has been playing an important role in the task of lengthening the main jetee by 200 meters, which is still in progress. In July the Legislative Assembly voted 75 million francs for improving the docking area for tankers and another 50 million francs to improve and strengthen the ice plant quai in the inner harbor. Neither of these projects are yet completed.

The ship traffic in the port increased slightly in 1955 over the previous year (table 23). A reduction in the tonnage of import and transit trade handled was more than offset by an increase in the tonnage of exports (table 22),

although the value of both imports and exports was up (table 21).

The Algeciras and Gibraltar ferries doubled their service during the busy summer months, and the number of automobiles handled by the ferries was up by almost a third over the previous year.

In late November the stevedors at the port went on strike for higher wages making it impossible for ships to offload merchandise. Ships headed for Tangier were routed to other ports causing considerable confusion and delay in the delivery of goods consigned to Tangier. As a result of an increase in salaries for port personnel, the Tangier Port company announced that as of January 1, 1956 lighterage rates in the harbor would be increased by 10%. Company officials expressed no particular concern over possible increased competition from the Spanish ports of Ceuta and Melilla, which in December 1955 were declared to be free Zones.

Rail: Cargo loaded and unloaded at Tangier showed an increase over the previous year (table 22) but passenger traffic on the Tangier-Fes Railway was down. The daily train service, which was reduced to four trains weekly in January, was resumed early in May.

Air: Plane movements as well as passenger and freight traffic exceeded the previous year's total. During the strike of ground personnel at the airport in Casablanca, trunk line flights from Paris were serviced and refueled at Tangier.

Highway: During the period under review there were no changes in the road network of the Zone. Automobile registration was up as compared with the previous year (table 24), and the humber of persons entering and leaving the Zone by road showed a considerable increase (table 26).

Communications:

Tangier continued to play an important role as a center for radio telecommunications during 1955. The RCA and Mackay Radio relay bases handled their usual large volume of traffic, and direct messages between the United States and Tangier exceeded the 1954 volume (table 27). The United States draft radio ordinance for Tangier remained under study, but no action was taken on it during the year.

In May, a new commercial radio-telephone circuit operated by "Telefonica" and "Elmar" was put into operation between Tangier and Gibraltar, and the Tangier telephone company, "Telefonica", increased its phone capacity to 11,000 to take care of an increasing number of subscribers. In addition, the French PTT included Tangier in its worldwide "Telex" facilities at the end of the year.

During the year the Spanish Post and Telegraph Office inaugurated a new branch in the European quarter of the city.

Tangier's commercial broadcasting stations continued to expand their operations during 1955. Pan American Radio, with an eye on their large listening audience across the Strait, started broadcasting full time in the Spanish language, reserving their foreign language programs for a separate frequency. A new company, Ibra Radio, backed by the Pentacostal Church, began broadcasting in Swedish to the Scandinavian countries in midyear. Its programs are both religious and non-religious in nature and include paid commercials, which would be illegal if the transmissions originated in Sweden. The Swedish station has not installed its own transmitter and other equipment but rather uses the facilities of Radio Africa, which is installing new antenna towers and transmitters for greatly increasing its power output.

THE FUTURE

The future of the Tangier Zone is at the moment exceedingly uncertain. Some suggested developments, however, were presented in the initial section of this report. Bankers are naturally hoping strongly for a continuation of the free money market, but business and industrial leaders, on the other hand, are of the opinion that the integration of Tangier with the rest of Morocco would certainly not worsen their plight and might, in fact, considerably broaden the possibilities for the Zone's future development.

It seems almost inevitable that the Nationalist leaders will in due course ask that the government of the Zone be placed under the political control of the Sultan, but the politicians' rare pronouncements on this subject have not entirely foreclosed the possibility of some special status for Tangier which might reserve to this strategic corner of Africa its traditional functions as a banking center, a holiday resort, a proving ground for multiracial living, and as an open door on Europe and the commerce of the world.

IMPORTANCE TO THE UNITED STATES

Although the United States has since 1945 occupied a seat on the Tangier Committee of Control, it has not played a preponderant role in the affairs of the Zone as compared to some of the other Control Powers. The American population of Tangier is small, and our only sizeable investments in the Zone are one government and two commercial radio relay bases. Tangier's production and export volume is insignificant, but the United States, it is interesting to note, is the principal supplier of the Zone's imports in a market where the absence of import licenses and exchange controls make price and quality the only competitive factors. Finally, it should be mentioned that there is an American School in Tangier, with a large non-American student body, which is supported wholly by private means.

J. C. Holmes

Encl. Appendix of statistical tables.
CC: Rabat and Casablanca
Dept. pls. pass: Paris, Madrid, London, Rome, Tunis, Tripoli, Algiers, and return ten copies to Legation.

APPENDIX

POPULATION	1953	1954	1955
1. Urban-Rural Population (Estimates-no census available)			
Urban	162,110	160,323	161,729
Rural	22,000	23,000	22,000
Total	184,110	183,323	183,729
2. Population by Nationality			
Moroccan	120,000	122,500	127,000
Moslem	105,000	107,000	115,000
Jewish	15,000	15,500	12,000
Foreign	64,110	60,823	56,729
Spanish	40,000	38,000	35,500
French	8,000	7,500	7,000
British	1,500	1,634	1,832
Italian	2,500	2,500	2,200
Portuguese	1,200	1,200	1,200
United States	300	374	397
Belgian	450	450	450
Dutch	n.a	n.a	150
Others	10,160	9,165	8,000
TOTAL	184,110	183,323	183,729
LABOR			
3. Unemployment	5,579 1/	7,194 1/	9,240 1/
4. Labor Bureau			
Registration of unemployed	2,957	2,319	3,619
Placed	609	589	1,573
Placement percentage	21%	25%	43%
5. Retail Price Index			
Pesetas	265.51	247.36	246.74
Francs	233.11	202.86	203.65
6. Daily Wages in Pesetas			
Construction and building trade			
Skilled	95	88.34	90 1/
Semi-skilled	49	49.40	50 1/
Unskilled	30	32.85	36 1/
Shop and industrial establishments			
Skilled	95	100-150	100-150 1/
Semi-Skilled	45	60-90	60-90 1/
Unskilled	35	30-40	40-50 1/

LABOR (Cont'd)	1953	1954	1955
7. Number of Labor Unions	0	0	12
BANKING, BUSINESS & INDUSTRY			
8. Exchange Rates to the US $1.			
Average Peseta rate	43.35	43.25	43.40
High-low Peseta rate	47.30-42.40	45.10-42.00	44.65-41.50
Range of Peseta fluctuation	5.40	3.10	3.15
Average Moroccan Franc rate	397.60	372.80	376.38
High-low Moroccan Franc rates	417-380	383-364	396-368.25
Range of Moroccan Franc fluctuation	37	19	27.75
9. Gold in Entrepôt Fictif			
Imports (Kilograms)	16,007	252	32
Withdrawals (Kilograms)	15,035	11,868	10,143
Balance (Kilograms)	52,390	40,774	30,663
Price at beginning of year	$37.90	$35.20	$34.97
Price at close of year	$35.20	$35.00	$34.95
10. Building Activity			
New construction permit value	$4,014,675	$3,522,381	$2,675,681
New construction and repair value	$4,499,413	$3,853,900	$2,902,691
11. Consumption of Petroleum Products			
Total consumption (liters)	29,546,270	34,035,378	35,708,156
Gasoline	11,293,614	12,470,915	12,668,801
Other	18,252,656	21,564,463	23,039,355
12. Real Estate Transactions			
Number	1,055	958	986
Value	$1,987,498	$2,270,775	$1,858,449
13. Corporations			
New registrations:			
Number	270	236	295
Value of stated capital	$1,734,772	$1,262,402	$1,259,002
Registered capital increases:			
Number	50	26	41
Value	$ 753,641	$ 915,938	$2,863,197
14. Business licenses			
Establishments paying business license tax (includes professions)	8,840	8,200 1/	8,100 1/

BANKING, BUSINESS & INDUSTRY (Cont'd)

	1953	1954	1955
15. Mortgages			
Registered, number	195	316	256
Registered, value	$2,157,188	$1,669,122	$1,299,275
Liquidated, number	90	100	145
Liquidated, value	$ 646,563	$ 859,503	$ 850,317
Outstanding, number	437	653	764
Outstanding, value	$4,761,938	$5,644,571	$6,093,529
16. Bankruptcies			
Number	17	23	20
17. Protested Unpaid Bills			
Number	3,015	3,389	3,110 2/
Value	$ 806,559	$ 873,270	$ 633,896 2/
18. Electric Energy Consumption			
(thousands KWH)	21,265.0	22,961.4	23,346.1
Lighting and domestic use	13,285.7	14,039.2	13,751.0
Industrial	6,707.9	8,922.2	9,595.1
19. Telephone Subscribers	6,892	7,640	7,897
20. Water Consumption (cubic meters)			
Consumption	2,810,673	2,547,429	2,311,095
21. Foreign Trade			
Imports:	$33,281,652	$29,925,686	$31,013,586
Foreign Countries	$29,245,933	$25,695,786	$26,465,983
French Zone	$ 2,381,891	$ 2,080,112	$ 2,137,959
Spanish Zone	$ 1,653,828	$ 2,149,788	$ 2,409,644
Exports:	$ 7,383,903	$ 6,746,517	$ 7,334,748
Foreign Countries	$ 2,438,690	$ 2,672,550	$ 3,620,485
French Zone	$ 954,288	$ 1,085,351	$ 1,520,113
Spanish Zone	$ 3,990,925	$ 2,988,616	$ 2,194,150
Visible Trade Deficit:	$25,897,749	$23,179,169	$23,678,838

TRANSPORTATION AND COMMUNICATIONS

22. Freight Traffic (Metric tons)			
Sea:	264,748.9	214,962.1	221,158.4
Import	161,790.9	153,031.3	141,022.6
Export	33,578.2	41,830.0	61,929.8
Transit	22,745.8	20,100.8	18,206.0
Rail:(loaded & unloaded at Tangier)	15,893.7	18,104.5	19,786.1
Air: Import	259.5	284.4	310.7
Export	83.2	76.5	100.5

TRANSPORTATION AND COMMUNICATIONS (Cont'd)

	1953	1954	1955
23. Port Movement			
No. transoceanic vessels	416	334	396
No. coastal vessels	2,476	2,454	2,414
No. transoceanic & coastal	2,892	2,788	2,810
Net Metric tonnage (thousands of tons) all vessels	2,228.4	2,626.8	2,932.8
No. of automobiles using the ferries	16,491	24,077	35,701
24. Automobile Registration			
No. vehicles registered during the year	946	873	1,042
Total No. vehicles registered end of the year	10,956	11,829	12,871
25. Aircraft Movement			
No. commercial planes	2,996	2,062	2,121
No. private planes		289	299
No. military planes	476	354	405
Total metric tonnage, of aircraft	46,649	50,415	50,207
26. Passenger Arrivals & Departures	679,050	706,241	885,179
Sea	135,369	172,965	171,366
Rail	66,344	48,934	37,521
Road	429,148	430,069	518,624
Air	48,189	52,273	57,668
Arrivals, all means, total	344,718	352,873	441,634
Departures, all means, total	344,332	353,368	443,545
27. Communication Traffic, Cable & Wireless, Tangier-United States, Thousand Words			
Originating United States	407.0	391.5	425 1/
Originating Tangier	314.0	245.0	258 1/

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1/) Estimate
2/) Refers to period from October 1954 to September 1955.

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Central File: Decimal File 871.00, Internal Economic, Industrial And Social Affairs., Morocco, Economic Matters, Conditions. (General)., January 5, 1955 - July 5, 1956. January 5, 1955 - July 5, 1956. MS King and the People in Morocco, 1950-1959: Records of the Department of State relating to Internal Affairs: Morocco, 1955-1959. National Archives (United States). Archives Unbound, link.gale.com/apps/doc/SC5101470622/GDSC?u=uiowa_main&sid=GDSC&xid=bb716580&pg=110. Accessed 1 May 2021.